

**UNITED STATES  
RAILROAD RETIREMENT BOARD**

**2006 Annual Report**

*For Fiscal Year Ended September 30, 2005*

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# U.S. Railroad Retirement Board

## ***Mission Statement***

**T**he Railroad Retirement Board's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The Railroad Retirement Board also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

**I**n carrying out its mission, the Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The Railroad Retirement Board will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

*If you have any comments or suggestions regarding the presentation of information in this publication, please let us know. You can fax us at 312-751-7154, e-mail us at [opa@rrb.gov](mailto:opa@rrb.gov) or write us at the following address:  
Public Affairs, U.S. Railroad Retirement Board,  
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***[www.rrb.gov](http://www.rrb.gov)***

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# THE REPORT IN BRIEF

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*Railroad retirement and unemployment insurance benefits totaling almost \$9.3 billion were paid by the Railroad Retirement Board to more than 659,000 beneficiaries in fiscal year 2005. Financial reports issued in 2006 on the solvency of the railroad retirement and railroad unemployment insurance systems were both favorable. Total railroad retirement system assets equaled approximately \$29 billion as of September 30, 2005.*

## **Benefits and Beneficiaries**

Benefits paid under the Railroad Retirement and Railroad Unemployment Insurance Acts totaled almost \$9.3 billion in the fiscal year ending September 30, 2005. Retirement and survivor benefits were paid by the Railroad Retirement Board to about 634,000 beneficiaries during the fiscal year, of whom 591,000 were on the Board's annuity rolls at the end of the year. More than 29,000 railroad employees were paid unemployment and/or sickness insurance benefits. Approximately 4,000 beneficiaries received payments under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act.

Retirement and survivor benefit payments of \$9.2 billion during the 2005 fiscal year were \$173 million more than payments in the prior year. Employee and spouse annuitants were paid approximately \$7.1 billion, accounting for 77 percent of the total payments. Employees received over \$4.0 billion in age annuities, \$1.9 billion in disability annuities and \$63 million in supplemental annuities, while spouses and divorced spouses received about \$1.1 billion. Survivors were paid \$2.1 billion in annuities and some \$4 million in lump-sum benefits. The total number of beneficiaries who received retirement and survivor benefits declined by more than 15,000 from fiscal year 2004.

Gross unemployment and sickness benefits paid in fiscal year 2005 totaled \$111.2 million. Net benefits totaled nearly \$72.9 million after adjustment for recoveries of benefit payments, including injury settlements, some of which were made in prior years. Total gross and net benefit payments decreased by some \$12.1 million and \$10.1 million, respectively, from the preceding year. Gross unemployment benefits totaling \$33.5 million (\$29.2 million net) were paid to 9,700 claimants, while gross sickness benefits of \$77.8 million (\$43.7 million net) were paid to 20,700 claimants.

## Financial Reports

The Board's 23rd triennial actuarial valuation, submitted to Congress in June 2006, was generally favorable. The valuation concluded that, barring a sudden, unanticipated, large drop in railroad employment, or substantial investment losses, the railroad retirement system will experience no cash-flow problems during the next 36 years. The long-term stability of the system, however, is not assured. Under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

The Board's 2006 railroad unemployment insurance financial report was also generally favorable. Even as projected maximum benefit rates increase 46 percent from \$56 to \$82 from 2005 to 2016, experience-based contribution rates maintain solvency, except for small, short-term cash-flow problems in 2008 and 2009 under the most pessimistic assumption. Projections show quick repayment of any loans to the Railroad Unemployment Insurance Account. The report also predicted average employer contribution rates well below the maximum throughout the projection period. A 1.5 percent surcharge required to maintain a minimum account balance in effect in calendar year 2006 will likely be followed by no surcharge in calendar year 2007, a 1.5 percent surcharge in calendar year 2008, and a 2.5 percent surcharge in 2009, according to the report.

No financing changes were recommended by the Board for the railroad retirement or unemployment insurance systems.

The National Railroad Retirement Investment Trust's annual management report for fiscal year 2005 stated that, as of September 30, 2005, the market value of the Trust-managed assets had increased to \$27.7 billion, reflecting a 14.0% rate of return. Total railroad retirement system assets, including those maintained at the Treasury, equaled approximately \$29 billion.

The 23rd triennial actuarial valuation, the 2006 railroad unemployment insurance financial report and the National Railroad Retirement Investment Trust's 2005 annual management report are available at [www.rrb.gov](http://www.rrb.gov).

## Service

### Customer Satisfaction Survey

The Board earned a score of 90 in a 2005 American Customer Satisfaction Index survey which focused on the agency's survivor benefit process. It was the highest score for any government agency surveyed during the year and 18 points higher than the overall Federal Government score. The survey annually measures national customer satisfaction with corporate and government goods and services. Government agencies use the survey to gauge their level of service and benchmark their performance for comparison with similar organizations in the private sector.

## **Customer Service Plan**

During fiscal year 2005, customers received benefit services within the timeframes promised in the Board's Customer Service Plan 98.7 percent of the time.

## **Other Developments**

### **Database Conversion Project**

In 2005 the Board started work on a major information technology initiative to convert its existing non-relational IDMS database management system to a relational DB2 database system. The conversion will place the agency in a better position to provide service more efficiently in the coming years.

## **Office of Inspector General**

During fiscal year 2005, the Office of Inspector General continued its independent oversight of agency operations and its efforts to combat fraud, waste, and abuse. Eleven audit reports issued during the year identified operational weaknesses and recommendations for corrective action to program managers.

Investigative activities resulted in 55 criminal convictions, 52 indictments and informations, 30 civil judgments and nearly \$2.8 million in recoveries, restitutions, fines, civil damages and penalties.

## Selected Data on Benefit Operations

Retirement-Survivor	Fiscal Year 2005	Fiscal Year 2004
<b>Employee age annuities</b>		
Number awarded	8,000	7,800
Number being paid at end of period	199,800	204,700
Average being paid at end of period	\$1,693	\$1,619
<b>Employee disability annuities</b>		
Number of total disability annuities awarded	1,300	1,400
Number of total occupational disability annuities awarded	3,100	3,400
Number of total disability annuities being paid at end of period	20,200	20,000
Number of occupational disability annuities being paid at end of period	63,800	63,300
Average total disability annuity being paid at end of period	\$1,218	\$1,165
Average occupational disability annuity being paid at end of period	\$2,018	\$1,937
<b>Supplemental employee annuities</b>		
Number awarded	5,700	5,600
Number being paid at end of period	123,600	126,000
Average being paid at end of period	<sup>1</sup> \$42	\$42
<b>Spouse and divorced spouse annuities</b>		
Number awarded, total	<sup>2</sup> 10,400	8,600
Number being paid to divorced spouses at end of period	3,500	3,500
Number being paid at end of period, total	141,300	142,900
Average being paid to divorced spouses at end of period	\$394	\$378
Average being paid at end of period, total	\$638	\$620
<b>Survivor annuities</b>		
Number awarded to aged widow(er)s	7,000	7,300
Number awarded, total	9,000	9,300
Number being paid to aged widow(er)s at end of period	140,600	146,900
Number being paid at end of period, total	173,000	180,000
<b>Average being paid at end of period to</b>		
Aged widow(er)s	\$1,069	\$1,026
Disabled widow(er)s	\$902	\$865
Widowed mothers (fathers)	\$1,388	\$1,337
Remarried widow(er)s	\$704	\$673
Divorced widow(er)s	\$703	\$674
Children	\$789	\$766
<b>Lump-sum survivor benefits awarded</b>		
Number of lump-sum death benefits	4,700	5,100
Average lump-sum death benefit	\$904	\$898
Number of residual payments	<sup>3</sup> /	100
Average residual payment	\$3,733	\$2,927

## Selected Data on Benefit Operations (Continued)

Employees and Earnings <sup>4</sup>	Fiscal Year 2005	Fiscal Year 2004
Average employment	232,000	225,000
<b>Creditable earnings, Railroad Retirement Act (billions):</b>		
Tier I	\$14.61	\$13.66
Tier II	\$13.36	\$12.57
<b>Creditable earnings, Railroad Unemployment Insurance Act (billions)</b>	<b>\$3.26</b>	<b>\$3.12</b>
Unemployment-Sickness	Benefit Year 2004-2005	Benefit Year 2003-2004
Qualified employees	242,200	248,800
<b>Unemployment benefits</b>		
Net amount paid (millions)	\$30.2 <sup>5</sup> (\$29.2)	\$38.3
Beneficiaries	9,300 <sup>5</sup> (9,700)	11,700
Number of payments	62,000	76,400
Normal benefit accounts exhausted	2,200	2,400
Average payment per 2-week registration period	\$489	\$477
<b>Sickness benefits</b>		
Net amount paid (millions)	\$43.4 <sup>5</sup> (\$43.7)	\$46.4
Beneficiaries	20,200 <sup>5</sup> (20,700)	21,600
Number of payments	140,200	152,700
Normal benefit accounts exhausted	3,900	4,500
Average payment per 2-week registration period	\$496	\$486

<sup>1</sup>Includes 800 supplemental annuities, averaging \$66, awarded under the 1937 Act.

<sup>2</sup>During fiscal year 2005, unusually large numbers of spouse awards were made with small or no tier I amounts, resulting in larger than normal numbers of spouse awards and smaller than normal award amounts.

<sup>3</sup>Fewer than 50.

<sup>4</sup>Except for fiscal year 2004 employment, all figures in this section are preliminary.

<sup>5</sup>Data in parentheses are for the fiscal year (October 1, 2004 - September 30, 2005).



# A REVIEW OF OPERATIONS

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*At the end of fiscal year 2005, total railroad retirement system assets equaled approximately \$29 billion. During fiscal year 2005, benefits totaling over \$9.2 billion were paid under the Railroad Retirement and Railroad Unemployment Insurance Acts.*

*Retirement and survivor benefits accounted for almost all of this amount.*

*Net unemployment and sickness benefits totaled over \$71.9 million.*

## RAILROAD RETIREMENT AND SURVIVOR PROGRAM

As of September 30, 2005, total railroad retirement system assets, including those maintained in U.S. Treasury accounts and those maintained by the National Railroad Retirement Investment Trust (the “Trust” or “NRRIT”), equaled approximately \$29 billion, an increase of over \$2.5 billion during the fiscal year. Amounts in the Railroad Retirement (RR) Account not needed to pay current administrative expenses and amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest Trust assets in non-governmental assets, such as equities and debt, as well as in governmental securities.

## FINANCIAL OPERATIONS - U.S. TREASURY ACCOUNTS

During fiscal year 2005, railroad retirement and survivor benefit payments were financed through four U.S. Treasury accounts.

The SSEB Account, established in fiscal year 1985, pays the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. The RR Account funds retirement, survivor and disability benefits, in excess of social security equivalent benefits, from payroll taxes on employers and employees and other income sources. Effective January 1, 2002, supplemental benefit payments are paid from the RR Account. The Dual Benefits Payments (DBP) Account and Federal Payments (FP) Account, funded by congressional

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Financial information (other than when the term “paid” or “collected” is used) is presented on the accrual basis of accounting instead of the cash basis of accounting, except for the Federal income tax transfer explanation on pages 10 and 11 and the Trust information on pages 7, 13, and 15. Benefit operations data presented on pages 16-25 for the railroad retirement and survivor program and pages 30-32 for the railroad unemployment and sickness insurance program are on a cash basis of accounting. The primary difference between the two bases of accounting is that the accrual basis recognizes revenue when it is earned and expenditures when they are incurred. The cash basis, on the other hand, recognizes revenue and expenditures only when cash is received or paid.

appropriations from general revenues, finance the phase-out costs of certain vested dual benefits and interest on unnegotiated checks, respectively. The four accounts together incurred \$9.2 billion in benefit obligations (excluding \$1.2 billion in social security benefits which were reimbursed by the Social Security Administration) during fiscal year 2005.

## **Financing Sources**

### **Payroll Taxes**

The primary source of income to the railroad retirement and survivor program is payroll taxes levied on covered employers and their employees. Payroll taxes amounted to \$4.5 billion, 48.4 percent of total financing sources and \$83.2 million more than in fiscal year 2004.

Railroad employees and employers pay tier I taxes which, by law, are the same as social security taxes. The rate of 7.65 percent is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of earnings subject to the 6.20 percent rate in calendar year 2005 was \$90,000, and all earnings were subject to the 1.45 percent Medicare tax. In calendar year 2004, the maximum amount subject to the 6.20 percent tax was \$87,900, with all earnings subject to the 1.45 percent Medicare tax. Both employees and employers also pay a tier II tax to finance railroad retirement benefit payments over and above social security levels. This tax, on earnings up to \$66,900 in 2005 and \$65,100 in 2004, was 4.4 percent on employees in 2005 and 4.9 percent in 2004. It was 12.6 percent on employers in 2005 and 13.1 percent in 2004.

Tier I and tier II taxes for fiscal year 2005 amounted to \$2.2 billion and \$2.3 billion, respectively.

### **Financial Interchange Transfers**

The second major source of income to the railroad retirement and survivor program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the Social Security Old-Age, Survivors and Disability Insurance and Hospital Insurance Trust Funds in the same position in which they would have been had railroad employment been covered by the Social Security and Federal Insurance Contributions Acts. This involves computing the amount of social security taxes that would have been collected on railroad employment, and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year.

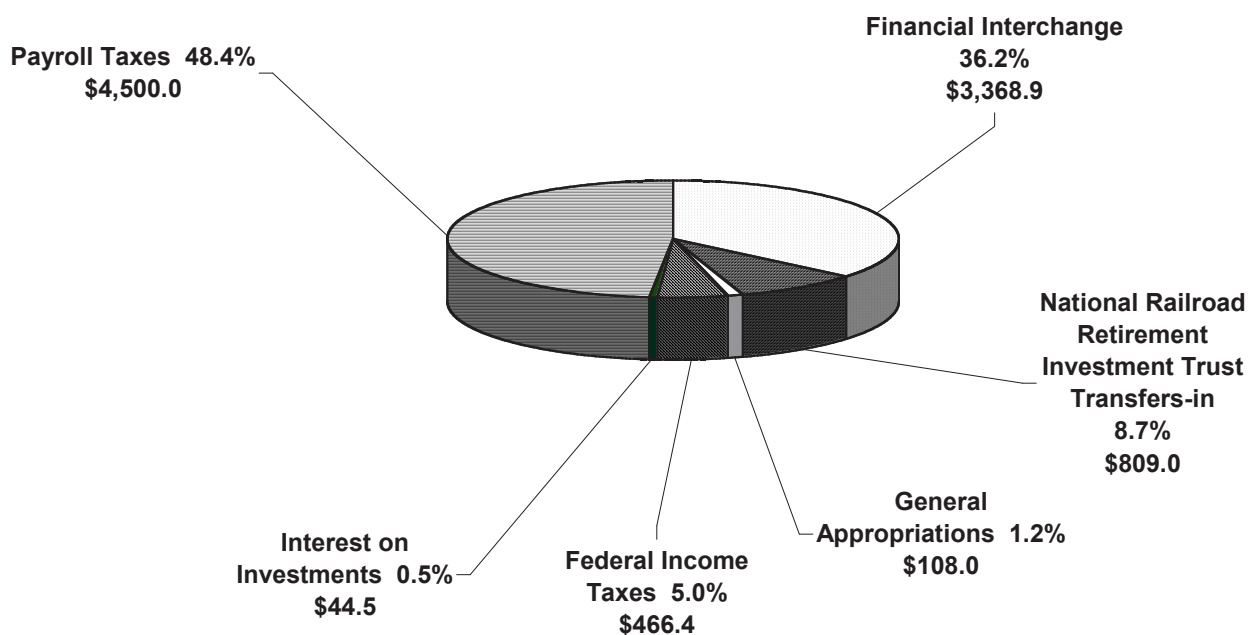
In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the Social Security Trust Funds to the SSEB Account. If taxes exceed benefit reimbursements (this has not happened since 1951), a transfer

*(text continued on page 10)*

## RETIREMENT AND SURVIVOR PROGRAM

### Financing Sources - Fiscal Year 2005 (In Millions)

**GROSS TOTAL: \$9,296.8<sup>1</sup>**

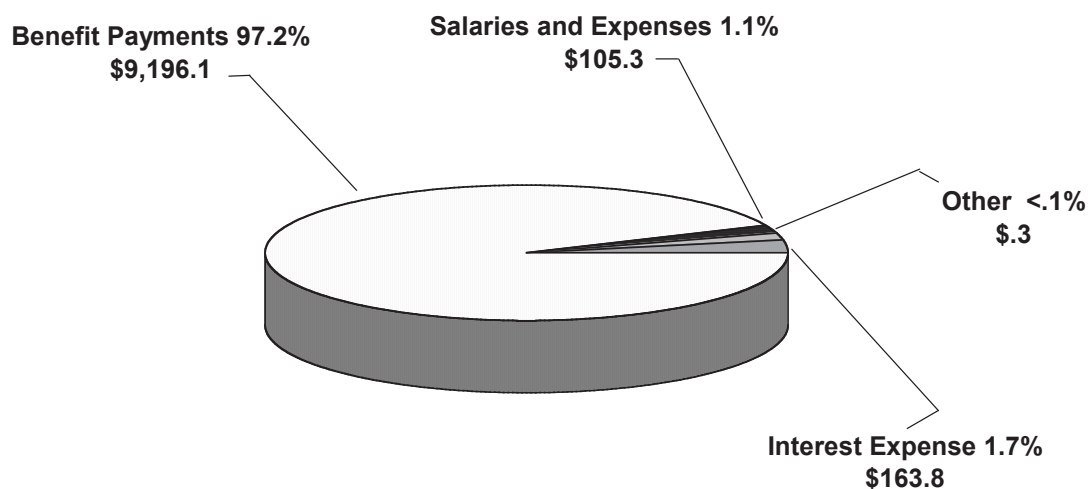


<sup>1</sup> Excludes \$85.3 million as detailed under Other Financing Sources on page 14.

Note.-- Percentages may not add to 100 due to rounding.

### Costs - Fiscal Year 2005 (In Millions)

**TOTAL: \$9,465.5**



would be made in favor of the Social Security Trust Funds. The net financial inter-change transfer to the SSEB Account during fiscal year 2005 amounted to \$3.4 billion.

## **Interest on Investments and Other Revenue**

Interest revenue increased from \$41.1 million in fiscal year 2004 to \$44.5 million in fiscal year 2005. The RR Account also earned interest revenue from financial inter-change advances.

## **Federal Income Tax Transfers**

Legislation enacted in 1983 subjecting social security and railroad retirement benefits to Federal income taxes also provided for a transfer of the tax revenues to the social security and railroad retirement systems for the payment of benefits. Revenue from income taxes on social security equivalent railroad retirement benefits is transferred to the SSEB Account.\* Revenue derived from taxing regular railroad retirement benefits in excess of social security equivalent benefits is transferred to the RR Account. Revenue from taxing the vested dual benefits funded by the general revenue appropriations previously described is transferred to the DBP Account.

At the beginning of each quarter, income tax transfers are made from Treasury general funds to the SSEB, RR and DBP Accounts. These transfers are estimates of expected tax revenues for the quarter. Adjustments are made later to reconcile the estimates for a taxable year with actual tax revenues for the year. On a cash basis, original tax transfers for fiscal year 2005 amounted to \$430 million during the year. Original transfers for fiscal year 2004 totaled \$406 million. Net income tax transfers after adjustments were \$451 million for fiscal year 2005, including a \$21 million adjustment for calendar year 2000. Net transfers in fiscal year 2004 were \$445 million, including \$39 million in reconciliation adjustments.

The table on the next page shows income tax transfers to the Accounts for taxable years 1996 through 2005, including reconciliation adjustments through 2000.

## **General Appropriations**

General revenue appropriations were provided by the Railroad Retirement Act of 1974 to fund the phase-out costs of certain dual railroad retirement/social security benefits considered vested prior to 1975, and by the Railroad Retirement Solvency Act of 1983 to fund interest on unnegotiated checks. The total amounts appropriated by the Congress for vested dual benefits were \$108 million for fiscal year 2005 and \$119 million for fiscal year 2004. These amounts include \$9 million and \$10 million in Federal income tax transfers for 2005 and 2004, respectively. The amount appropriated for fiscal year 2005 was 9.2 percent less than fiscal year 2004, reflecting the

*(text continued on page 14)*

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\* Legislation enacted in 1993 subjected a larger amount of social security benefits and social security equivalent railroad retirement benefits to Federal income tax for taxpayers in higher income brackets. This provision was effective beginning with taxable year 1994, and the additional revenue raised is transferred to the Federal Hospital Insurance Trust Fund.

**Federal Income Tax Transfers by Recipient Account and  
Benefit Component, Taxable Years 1996-2005 (Millions)**

Taxable year	Revenue from taxes on		
	RRA benefits treated as SSA benefits	RRA benefits treated as private or public pensions	
	SSEB tier I benefits	Tier II and non-SSEB tier I benefits <sup>1</sup>	Vested dual benefits
	SSEB Account <sup>2</sup>	RR Account	DBP Account <sup>3</sup>
<b>Original transfers during the year</b>			
1996	\$57	\$192	\$14
1997	61	195	12
1998	74	196	12
1999	79	227	11
2000	102	245	12
2001	94	229	10
2002	97	252	9
2003	97	283	9
2004	109	294	8
2005	117	301	7
<b>Reconciliation adjustments <sup>4</sup></b>			
1996 (1999)	+18	+34	+1
1997 (2000, 2001 <sup>5</sup> )	+25	+43	+3
1998 (2002)	+14	+47	+2
1999 (2003)	+15	+22	+2
2000 (2004)	+3	+17	+1

<sup>1</sup> Includes non-SSEB portion of tier I.

<sup>2</sup> Receives taxes on social security equivalent benefit (SSEB) portion of tier I.

<sup>3</sup> Receives taxes on vested dual benefit component beginning October 1, 1988.

<sup>4</sup> The year in parentheses is the year the adjustments were made.

<sup>5</sup> Reconciliation of benefits made in October 2001.

# Railroad Retirement and Survivor Program - U.S. Treasury Accounts

## Consolidated Financing Sources, Costs and Net Position (Millions)<sup>1</sup>

For the Fiscal Year Ended September 30	2005	2004
<b>Financing Sources:</b>		
Payroll Taxes	\$4,500.0	\$4,416.8
Financial Interchange	3,368.9	3,421.3
Interest on Investments and Other Revenue	44.5	41.1
Federal Income Taxes	466.4	435.0
General Appropriations	108.0	119.2
Other	(85.3)	17.5
Transfers to the National Railroad Retirement Investment Trust	---	(586.0)
Transfers from the National Railroad Retirement Investment Trust	809.0	1,564.0
Total Financing Sources	9,211.5	9,428.9
<b>Costs:</b>		
Benefit Payments	9,196.1	9,023.5
Interest Expense	163.8	170.5
Salaries and Expenses <sup>2</sup>	105.3	108.7
Other	0.3	4.2
Total Costs	9,465.5	9,306.9
Financing Sources over Costs	(254.0)	122.0
Net Position - Beginning of Period	673.0	551.0
Net Position - End of Period	\$419.0	\$673.0

<sup>1</sup>Prepared on an accrual basis of accounting.

<sup>2</sup>Includes unemployment and sickness insurance salaries and expenses of approximately \$15.2 million and \$15.6 million for fiscal years 2005 and 2004, respectively.

## National Railroad Retirement Investment Trust (NRRIT)

### **Fiscal Year 2005 Highlights**

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Market value of assets managed by NRRIT on September 30, 2005	\$27.7 billion
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Rate of return of investment portfolio managed by NRRIT for full year ended September 30, 2005	14.0%
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**Source:** *NRRIT*

All NRRIT annual management reports and quarterly updates are available on the Railroad Retirement Board's Web site at [www.rrb.gov](http://www.rrb.gov).

continuing decrease in eligibility for these benefits, which are not increased for the cost of living. The total amounts appropriated by the Congress for interest on unnegotiated checks were \$150,000 for fiscal years 2005/2006 and also \$150,000 for fiscal years 2004/2005.

## **Other Financing Sources**

Other financing sources consisted of \$8.2 million to be provided by the Office of Personnel Management to pay future retirement benefits to Railroad Retirement Board employees, and \$14.6 million from the railroad unemployment trust funds in transfers-in for current budget fiscal year salaries and expenses. These financing sources were offset by transfers-out of \$5.3 million for salaries and expenses of the Board's Office of Inspector General, a \$2.8 million decrease in unexpended appropriations, and the recording of a contingent liability in the amount of \$100 million related to the financial interchange for military service credits.

## **Costs**

The Railroad Retirement Board pays all salaries and expenses under a single administrative fund (Limitation on Administration) for both the railroad retirement and survivor program and the unemployment and sickness insurance program. Consequently, of the \$105.3 million and \$108.7 million shown on page 12 for salaries and expenses in fiscal years 2005 and 2004, respectively, about \$15.2 million for fiscal year 2005 and \$15.6 million for fiscal year 2004 were for the unemployment and sickness insurance program. About \$1.2 million of the amount shown in other costs for fiscal year 2005 and \$1.4 million for fiscal year 2004 were for the unemployment and sickness insurance program.

Excluding \$16.4 million from total costs of \$9.5 billion for fiscal year 2005 and \$17.0 million from total costs of \$9.3 billion for fiscal year 2004, total costs for the railroad retirement and survivor program for fiscal year 2005 increased \$159.2 million or 1.7 percent.

## **Benefit Payments**

During fiscal year 2005, railroad retirement benefit payments increased \$172.6 million or almost 1.9 percent to about \$9.2 billion, including \$106 million in vested dual benefits and \$62.6 million in supplemental annuities.

## **Interest Expense**

Interest expense of \$163.8 million represents interest on the financial interchange advances made by the U.S. Treasury during the fiscal year.

## **Salaries and Expenses**

Excluding unemployment and sickness insurance salaries and expenses of \$15.2 million for fiscal year 2005 and \$15.6 million for fiscal year 2004, salaries and



expenses for the railroad retirement and survivor program were about \$90.1 million for fiscal year 2005 and about \$93.1 million for fiscal year 2004, a \$3.0 million or 3.2 percent decrease. Adjusted by the \$15.2 million in salaries and expenses and \$1.2 million in other costs for the unemployment and sickness insurance program, fiscal year 2005 administrative expenses for the railroad retirement and survivor program were about 1 percent of total costs.

## **Other Costs**

Other costs consisted primarily of post-retirement benefits for Railroad Retirement Board employees of \$7.0 million for the railroad retirement and survivor program and \$1.2 million for the unemployment and sickness insurance program. In addition, carrier refunds of \$0.6 million were incurred. These costs were offset by a nearly \$7.2 million reimbursement from the Centers for Medicare & Medicaid Services for Part B Medicare costs, as well as a reimbursement of approximately \$0.4 million from the Board's Office of Inspector General for Board-incurred expenses, and various other revenues of approximately \$0.9 million.

## **NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST OPERATIONS**

Funds not needed immediately for benefit payments or administrative expenses are invested. The National Railroad Retirement Investment Trust was established pursuant to section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001. The sole purpose of the Trust is to manage and invest railroad retirement assets. The Act authorizes the Trust to invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, investment of Railroad Retirement Account assets was limited to U.S. Government securities. The Trust has no powers or authority over the administration of railroad retirement benefits. The Trust is a tax-exempt entity independent from the Federal Government. It is domiciled in and subject to the laws of the District of Columbia.

Fiscal year 2005 was a year of continued growth for the Trust. Assets were invested in an indexed portfolio of equity and debt securities with an asset allocation consistent with the Trust's investment guidelines. As of September 30, 2005, the market value of Trust-managed assets had increased to \$27.7 billion, reflecting a 14.0% rate of return for the fiscal year, compared to a 13.0% return for its composite benchmark. In addition, during fiscal year 2005 the Trust transferred \$809 million to the Railroad Retirement Account for the payment of railroad retirement benefits.

As of September 30, 2005, total railroad retirement system assets (Trust-managed assets and reserves held in the Treasury accounts) equaled approximately \$29 billion, an increase of over \$2.5 billion during the fiscal year.

Trust operations are described in detail in the National Railroad Retirement Investment Trust Annual Management Report for fiscal year 2005, which is available on the Board's Web site at [www.rrb.gov](http://www.rrb.gov).

## BENEFIT OPERATIONS

Retirement and survivor benefits paid, including vested dual benefits and supplemental employee annuities, totaled \$9.2 billion in fiscal year 2005, \$173 million more than in fiscal year 2004. Benefits were paid to about 633,700 beneficiaries in fiscal year 2005. Nearly 590,900 beneficiaries were being paid at the end of the year. The table shown below presents retirement and survivor benefit payments for fiscal years 2005 and 2004, by type of benefit, and the percent changes in payments between the 2 years.

Under the two-tier railroad retirement formulas, the tier I annuity portion approximates a social security benefit and increases by the cost-of-living percentage applied to social security benefits. The tier II portion, which is comparable to retirement benefits paid over and above social security benefits to workers in other industries, increases by 32.5 percent of the social security percentage. Effective December 2003, tier I portions increased by 2.1 percent while tier II portions increased by 0.7 percent. Increases of 2.7 percent for tier I and 0.9 percent for tier II were effective December 2004.

The December 2003 and December 2004 cost-of-living increases provided additional benefit payments of about \$155 million in fiscal year 2005, compared to payments in fiscal year 2004.

Monthly retirement and survivor benefits being paid numbered nearly 721,700 at the end of the 2005 fiscal year, about 15,100 less than at the end of the prior year. Monthly beneficiaries on the rolls declined by some 12,600 over the year, from 603,500 to 590,900. The number of monthly benefits paid is always greater than the number of beneficiaries on the rolls, since many annuitants receive more than one type of benefit. Although the second benefit is usually a supplemental employee annuity, some employees also receive a spouse or widow(er)'s annuity.

Regular employee annuities in payment status at the end of fiscal year 2005 numbered 283,800, about 4,200 less than at the end of the previous fiscal year. The number of age annuities being paid dropped from 204,700 to 199,800 over the year, while disability annuities rose 700 to 84,000. Supplemental annuities being paid dropped some 2,400, numbering 123,600 at the end of the year. The number of divorced spouse annuities being paid remained the same at 3,500. Spouse and divorced spouse annuities

Type of benefit	(in millions)		Percent change
	Fiscal year 2005	Fiscal year 2004	
Retirement benefits			
Employee annuities			
Age	\$4,041.2	\$3,965.8	+1.9
Disability	1,859.0	1,775.6	+4.7
Supplemental	62.7	63.9	-1.9
Spouse and divorced spouse annuities	1,088.7	1,071.6	+1.6
Total	7,051.6	6,876.9	+2.5
Survivor benefits			
Annuities	2,125.0	2,126.5	-0.1
Lump-sum benefits	4.5	4.8	-7.2
Total	2,129.5	2,131.3	-0.1
Grand total	\$9,181.1	\$9,008.3	+1.9
<b>Note.</b> --Detail may not add to total due to rounding.			

together declined by almost 1,600, totaling 141,300 at year-end. Some 173,000 monthly survivor benefits were being paid at the end of fiscal year 2005, a decrease of 7,000 from the previous year.

## Retirement

### Regular employee annuities

Awards of regular employee annuities numbered 12,400 in fiscal year 2005, 200 less than in fiscal year 2004. Data by type of annuity awarded during the year are given in the table on this page.

Railroad employees with 10 to 29 years of creditable service, or 5 to 9 years of service if at least 5 years were after 1995, are eligible for regular annuities based on age and service at age 62. Early retirement annuity reductions are applied to annuities awarded before full retirement age--the age at which an employee can receive full benefits with no reduction for early retirement. This ranges from age 65 for those born before 1938 to age 67 for those born in 1960 or later, the same as under social security. If an employee had any creditable railroad service before August 12, 1983, the retirement age for tier II purposes will remain 65. The reduction for early retirement is 1/180 for each of the first 36 months the employee is under full retirement age when his or her annuity begins and 1/240 for each additional month.

Rail employees with 30 or more years of service are eligible for regular annuities based on age and service at age 60.

Certain early retirement reductions are applied if the employee first became eligible for a 60/30 annuity July 1, 1984, or later and retired at ages 60 or 61 *before 2002*. Employees who retire at 60 or older with at least 30 years of railroad service are referred to as 60/30 retirees.

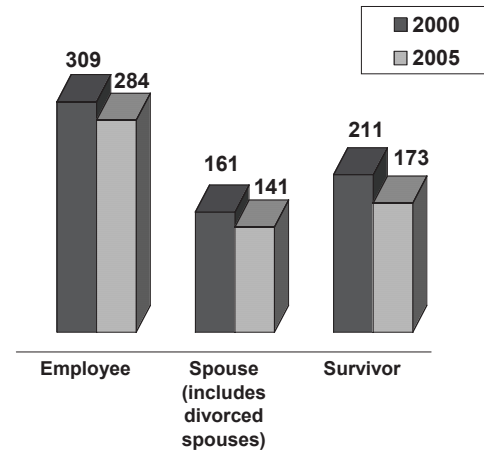
Employee annuities awarded in fiscal year 2005	Number	Per-cent	Average		
			Monthly amount	Years of service	Age at retire-ment
Age					
Beginning at full retirement age or over	800	6	\$1,702	22.4	67.0
Unreduced, beginning at age 60 to under full retirement age	5,100	41	2,796	35.6	60.7
Reduced, beginning at age 62 to under full retirement age	2,100	17	1,263	17.4	62.6
Disability	4,400	36	2,210	24.3	54.0
Total	12,400	100	\$2,258	27.6	59.0
Note.--Detail may not add to total due to rounding.					

Disability awards are based either on total disability or on occupational disability. A *total disability* annuity is based on disability for all employment and is payable at any age to employees with at least 10 years of railroad service. Employees with 5-9 years of service, if at least 5 years were after 1995, may qualify for tier I only before retirement age on the basis of total disability if they also meet certain social security earnings requirements. An employee is considered totally disabled if medical evidence shows that a permanent physical or mental condition exists which prevents the performance of any regular work. A condition is considered to be permanent if it has lasted or may be expected to last for at least 12 months.

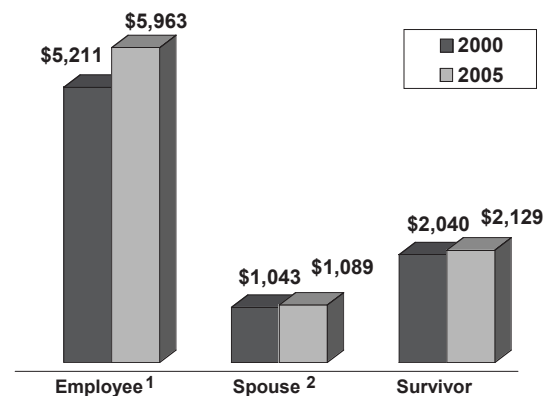
An *occupational disability* annuity is based on disability for the employee's regular railroad occupation and is payable to employees with a current connection with the rail industry at age 60 if the employee has 10 years of service, or at any age if the employee has at least 20 years of service. An employee is considered occupationally disabled if the physical or mental condition is such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work.

Of the year's 4,400 disability awards, 1,300 averaging \$1,438 per month were for total disability and 3,100 averaging \$2,533 were for occupational disability. Many employees who are disabled for all employment but are otherwise qualified for an occupational disability annuity are initially awarded occupational disability annuities in order to expedite payment.

**Number of monthly beneficiaries,  
September 30, 2000, and 2005 (Thousands)**

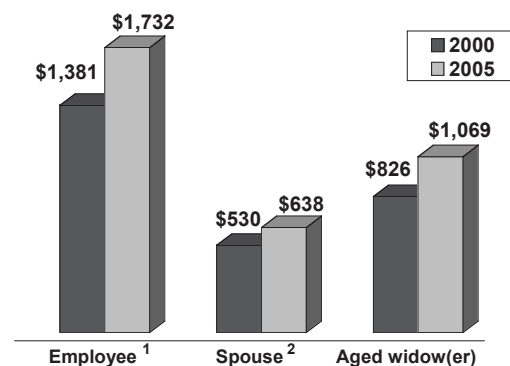


**Amount of benefits paid,  
fiscal years 2000 and 2005 (Millions)**



<sup>1</sup>Includes \$72.9 million in fiscal year 2000 and \$62.7 million in fiscal year 2005 for supplemental annuities. <sup>2</sup>Includes divorced spouses.

**Average monthly amount,  
September 30, 2000, and 2005**



<sup>1</sup>Without supplemental annuity. <sup>2</sup>Includes divorced spouses.

An estimated three-fifths of all employees awarded disability annuities will meet the medical criteria for a disability freeze determination. The standards for freeze determinations follow social security law and are comparable to the criteria for granting total disability. Also, an employee granted a disability freeze may qualify for early Medicare coverage and lower Federal income taxes on his or her annuity.

Of the employees who were awarded regular annuities in fiscal year 2005, more than 8,500, or 69 percent, last worked for a railroad either in the calendar year their annuity began or in the preceding year. Such retirements are termed “immediate,” while those that occur 2 or more calendar years after the year of last railroad employment are called “deferred.” As a group, immediate retirees represent career railroad employees who worked in the industry until retirement. Awards based on immediate retirement averaged \$2,610 per month, compared to \$1,479 for the 3,900 awards based on deferred retirement. Immediate retirees averaged 31 years of railroad service, considerably more than the average of 19 years for deferred retirees. Of the year’s awards, 56 percent of normal age retirements were immediate. While 88 percent of all 60/30 retirements were immediate, only 14 percent of the reduced age awards to employees with less than 30 years of service were immediate. Immediate retirements accounted for 75 percent of the year’s disability awards.

The 283,800 retired employees on the rolls as of September 30, 2005, were being paid regular monthly annuities averaging \$1,732. The table on this page gives data by type of annuity for these benefits.

<b>Employee annuities in current-payment status on September 30, 2005</b>	<b>Number</b>	<b>Percent</b>	<b>Average monthly amount</b>	<b>Percent immediate retirements</b>
<b>Age</b>				
Beginning at full retirement age or over	28,200	10	\$1,275	45
Unreduced, beginning at age 60 to under full retirement age	89,600	32	2,220	93
Reduced, beginning at age 60 to under full retirement age	82,000	29	1,261	39
<b>Disability</b>	<b>84,000</b>	<b>30</b>	<b>1,825</b>	<b>81</b>
<b>Total</b>	<b>283,800</b>	<b>100</b>	<b>\$1,732</b>	<b>69</b>
<b>Note.</b> --Detail may not add to total due to rounding.				

Of the 84,000 disability annuities being paid, 20,200 were for total disability and 63,800 for occupational disability. The two types of disability annuities averaged \$1,218 and \$2,018, respectively. In fiscal year 2005, approximately \$299 million was paid in total disability annuities and \$1,560 million in occupational disability annuities.

Some 195,900 employees on the rolls at the end of fiscal year 2005 were immediate retirees and their regular annuities averaged \$2,043 per month. Annuities of the 87,900 deferred retirees averaged \$1,038. Although their average railroad retirement annuity was much lower, a greater proportion of the deferred annuitants also received social

security benefits--35 percent compared to 5 percent for the immediate retirees. Moreover, the average social security benefit paid to deferred retirees was higher than that paid to immediate retirees. Combined railroad retirement and social security benefits to deferred retirees who were dual beneficiaries averaged \$1,261, while combined benefits to immediate retirees averaged \$1,727. The table on this page gives numbers of beneficiaries and average benefit amounts for employees on the rolls who were receiving social security benefits, and for those who were not, by type of retirement.

Regular employee annuities consist of as many as three components: tier I, tier II, and a vested dual benefit. Reductions for early age retirement are made in all components in cases where the employee retired before full retirement age with less than 30 years of railroad service. The tier I component is based on the employee's combined railroad and social security covered earnings, and is reduced by the amount of any social security benefit that the employee receives. The gross tier I amounts of employees on the rolls at the end of fiscal year 2005 averaged \$1,369 per month. Tier I amounts of some 8,400 employees were completely offset by social security benefits. Tier I amounts being paid averaged \$1,225.

Dual benefit status	Type of retirement		
	Total	Immediate	Deferred
<b>Receiving social security benefit</b>			
Number	40,700	10,200	30,600
Average monthly amount:			
Railroad retirement (regular)	\$499	\$1,078	\$307
Social security	878	649	955
Combined benefit	1,378	1,727	1,261
<b>Not receiving social security benefit</b>			
Number	243,000	185,800	57,300
Average monthly amount	\$1,939	\$2,096	\$1,429
<b>Note.</b> --Detail may not add to total due to rounding.			

The employee tier II component is based solely on railroad earnings. Tier II amounts being paid at the end of fiscal year 2005 averaged \$531. Employees are eligible for vested dual benefits if, based on their own earnings, they met certain vesting requirements and qualified for both railroad retirement and social security benefits at the end of 1974, or, in some cases, at the end of an earlier year of last railroad service. More than 48,700 retirees were receiving vested dual benefits averaging \$160 at the end of the fiscal year.

## Supplemental employee annuities

A supplemental annuity is payable to employees with a current connection with the rail industry at age 60 if the employee has at least 30 years of service, or at age 65 if the employee has 25-29 years of service. The employee must also have had some rail service before October 1981.

Nearly 5,700 supplemental annuities were awarded in fiscal year 2005, about 100

more than in fiscal year 2004. About 4,300 of the awards (75 percent) began concurrently with the employee's regular annuity, while the remaining 1,400 were to employees already receiving a regular annuity. Supplemental annuity awards averaged over \$41 per month; 85 percent were at the current maximum rate of \$43. Supplemental annuities are reduced for any part of a private railroad pension attributable to employer contributions. During the fiscal year, 1,300 supplemental annuities were not awarded because they were entirely offset by private pensions. In a few cases, the supplemental annuity was partially offset by the pension, or the supplemental annuity was not offset because the pension was reduced.

Supplemental annuities were being paid to about 123,600, or 44 percent, of the retired employees on the rolls at the end of the 2005 fiscal year. These annuities averaged \$42; about 800 of them were paid under 1937 Act amendments, which stipulated a maximum rate of \$70.

### **Spouse and divorced spouse annuities**

Annuity awards to spouses and divorced spouses of retired employees numbered 10,400 in fiscal year 2005, 1,800 more than in the previous year. During fiscal year 2005, unusually large numbers of spouse awards were made with small or no tier I amounts, resulting in larger than normal numbers of spouse awards and smaller than normal award amounts. The table on the next page presents numbers and average amounts of spouse and divorced spouse annuities awarded during the year and being paid at the end of the year, by type of annuity and whether subject to age reduction.

If an employee is at least age 62 and retires with 10-29 years of railroad service, or has 5-9 years of service and at least 5 years were after 1995, the employee's spouse is eligible for an annuity at age 62. Full retirement age for a spouse is gradually rising from 65 to 67, depending on the year of birth. Early retirement reductions are applied to the spouse annuity if the spouse retires before full retirement age. The reduction for early retirement is 1/144 for each of the first 36 months the spouse is under full retirement age when her or his annuity begins and 1/240 for each month (if any) over 36.

If an employee retires with at least 30 years of service and is at least age 60, the employee's spouse is eligible for an annuity at age 60. Prior to 2002, certain early retirement reductions were applied to the tier I component of such a spouse annuity if the employee retired before age 62, unless the employee attained age 60 and completed 30 years of service prior to July 1, 1984. If a 30-year employee retired at age 62, no age reduction applied to the spouse annuity. December 2001 legislation liberalized early retirement benefits for 30-year employees retiring at ages 60 or 61 *after 2001* and their spouses. A spouse of an employee qualified for an age and service annuity is eligible for a spouse annuity at any age if caring for the employee's unmarried child, and the child is under age 18 or the child became disabled before age 22.

Of the 2,900 reduced spouse annuities awarded in fiscal year 2005, 300 averaging \$675 per month were to spouses of 30-year employees and some 2,600 averaging \$354 were to spouses of employees with less than 30 years of service.

At the end of fiscal year 2005, some 137,800 spouse annuities averaging \$645 per month were being paid. Approximately 3,500 divorced spouse annuities averaging \$394 per month were also being paid. Families with an employee and spouse on the rolls were paid combined railroad retirement benefits averaging \$2,455. This included \$1,810 in regular and supplemental employee annuities and \$645 in spouse annuities.

Approximately 56,000, or 40 percent, of the spouses and divorced spouses on the rolls were also receiving social security benefits. Combined railroad retirement and social security benefits to these annuitants averaged \$977 per month, including \$255 in railroad retirement benefits and \$722 in social security benefits. Railroad retirement annuities to the 83,500 spouses not receiving social security benefits averaged \$898, while railroad retirement annuities to the 1,900 divorced spouses not receiving social security benefits averaged \$562.

Monthly spouse benefits	Awarded in fiscal year 2005		In current-payment status on September 30, 2005	
	Number	Average amount	Number	Average amount
Beginning at full retirement age or over	2,600	\$233	20,800	\$350
With minor or disabled child in care	300	919	1,400	898
Unreduced, beginning at age 60 to under full retirement age	4,100	1,129	56,900	913
Reduced rate	2,900	383	58,700	483
<b>Total</b>	<b>9,900</b>	<b>666</b>	<b>137,800</b>	<b>645</b>
Divorced spouse annuities	500	427	3,500	394
<b>Grand total</b>	<b>10,400</b>	<b>\$655</b>	<b>141,300</b>	<b>\$638</b>
<b>Note.</b> -- Detail may not add to total due to rounding.				

Like regular employee annuities, spouse annuities consist of up to three components. The tier I component equals one-half of the employee's tier I amount before any reduction for the employee's social security benefit. The spouse tier I amount is reduced for the spouse's receipt of a social security benefit and may be reduced for a spouse's public service pension. The tier I portion may also be reduced if the spouse receives a railroad retirement employee annuity, but this reduction is usually restored through an addition to the spouse tier II amount. Divorced spouses receive only a tier I benefit.

The spouse tier II component equals 45 percent of the employee's tier II amount. Railroad retirement amendments in 1981 precluded further awards of vested dual benefits to spouses.

Of the 137,800 spouses on the rolls at the end of fiscal year 2005, 96,400 were being paid tier I amounts averaging \$554 per month. The tier I amounts of 41,400 spouses were completely offset by other benefits also due. Spouse tier II amounts averaged \$270. Vested dual benefits averaging \$130 were being paid to 2,400 spouses. The 3,500



divorced spouses on the rolls at the end of fiscal year 2005 were being paid tier I amounts averaging \$402 per month.

## Lump-sum retirement benefits

A lump-sum benefit may be payable at retirement to employees who received separation or severance payments after 1984. This benefit approximates the tier II payroll taxes deducted from separation or severance payments that did not yield additional service credits for retirement. Approximately \$0.8 million was paid in separation/severance lump-sum benefits during fiscal year 2005.

Employees who have at least 10 years of railroad service and are not entitled to a vested dual benefit may be eligible for a dual retirement tax refund if they had concurrent railroad retirement and social security earnings within the period 1951-74. The refund is equal to the social security taxes that the employee paid on the combined railroad and social security earnings in excess of the annual railroad retirement creditable earnings maximum. During the 2005 fiscal year, the Board paid some 2,500 dual retirement tax refunds averaging \$91. Most of the payments were to employees retiring during the year. More than 50 refunds were to survivors, mostly widows, of employees who died before receiving the refund. Employees entitled to dual retirement tax refunds for years after 1974 may claim them on their Federal income tax returns.

## Survivor

### Monthly benefits

Annuity awards to survivors of deceased railroad employees numbered 9,000 during fiscal year 2005, 400 less than the previous year. Some 173,000 survivor annuities were being paid at the end of the fiscal year, including 300 temporarily paid at spouse or divorced spouse annuity rates pending recomputation to widow(er)s' rates. Almost 140,600, or 81 percent, of the survivor annuities were to aged widows and widowers.

The table on this page presents numbers

Monthly survivor benefits	Awarded in fiscal year 2005		In current-payment status on September 30, 2005	
	Number	Average amount	Number	Average amount
<b>Aged widow(er)s'</b>	7,000	\$1,416	140,600	\$1,069
<b>Disabled widow(er)s'</b>	200	1,288	4,800	902
<b>Widowed mothers' (fathers')</b>	200	1,397	1,000	1,388
<b>Remarried widow(er)s'</b>	200	821	5,100	704
<b>Divorced widow(er)s'</b>	800	796	9,700	703
<b>Children's:</b>				
Under age 18	400	1,079	2,400	1,061
Student	*	1,214	100	1,184
Disabled	100	822	9,200	713
<b>Parents'</b>	*	\$1,032	100	775
<b>Survivor option</b>	...	...	*	\$76
<b>Total</b>	9,000	...	173,000	...

\*Fewer than 50.

**Note.**-- Data may not add to total due to rounding.

and average monthly amounts of survivor annuities, by type, for those awarded in the year and those being paid at the end of the year.

Survivor annuities, like regular employee and spouse annuities, consist of as many as three components: tier I, tier II and, for widows and widowers only, a vested dual benefit. As with spouses, legislation in 1981 precluded new awards of vested dual benefits to widow(er)s.

The tier I component is computed according to social security formulas and is based on the deceased employee's combined railroad and social security earnings. A reduction is made for the survivor's receipt of a social security benefit. There may also be a tier I reduction if the survivor receives a railroad retirement employee annuity or public pension. Remarried and divorced widow(er)s receive a tier I benefit only. A dependent parent receives only a tier I amount if another family member is also receiving benefits or if the parent has remarried.

Survivor tier II amounts are figured as a percentage of an employee tier II benefit. Prior to 2002, the percentages were 50 percent for a widow(er), 15 percent for a child, and 35 percent for a parent. The total tier II amount for a survivor family was subject to a minimum of 35 percent and a maximum of 80 percent of the employee tier II benefit, and all survivor tier II amounts were proportionately adjusted when either limit applied. December 2001 legislation established an "initial minimum amount" for widow(er)s which provides a tier II benefit equal to 100 percent of the tier II amount of the deceased employee, effective February 2002. The maximum tier II amount payable to a family rose to 130 percent of the employee's tier II amount. Widows and widowers are guaranteed a total tier I and tier II amount not less than what they were paid as a spouse, any necessary increase being added to tier II.

Aged widow(er)s, who are eligible for benefits at age 60, have their tier I and tier II amounts reduced if the annuity begins before full retirement age. The eligibility age for unreduced annuities is gradually rising from age 65 to age 67. The maximum age reductions will range from 17.1 percent to 20.36 percent, depending on the widow(er)'s date of birth. Excluding about 300 annuities temporarily paid at spouse or divorced spouse rates, aged widow(er)s' annuities being paid at the end of the 2005 fiscal year included 63,800 which were reduced for age. Aged widow(er)s' tier I amounts being paid averaged \$903 per month. In nearly 9,700 cases, the tier I amount was wholly offset by reductions for other benefits. Some 51,300 aged widow(er)s were also receiving social security benefits, and these averaged \$680. Tier II amounts averaged \$228. About 4,000 vested dual benefits averaging \$66 were being paid to aged widow(er)s.

The tier I and tier II amounts of disabled widow(er)s' annuities, which begin at ages 50-59, are reduced 28.5 percent for age. Tier I amounts being paid to disabled widow(er)s on the rolls at the end of fiscal year 2005 averaged \$749 (in more than 200 cases, the tier I amount was wholly offset by reductions). Social security benefits being paid to about 1,500 disabled widow(er)s averaged \$652. Tier II amounts averaged \$185, while the 300 vested dual benefits being paid averaged \$79.

Tier I amounts paid to widowed mothers and fathers (widows and widowers caring for children) generally equal 75 percent of the full amount payable to an aged widow(er) before any reductions, similar to a social security mother's or father's benefit. Eligible children and grandchildren are paid this same tier I amount. However, if the sum of the tier I amounts of all members of a survivor family exceeds the social security family maximum, then tier I amounts are proportionately reduced so that the total equals the maximum. Reductions for the family maximum usually occur when the family includes three or more beneficiaries. Tier I amounts being paid as of the end of fiscal year 2005 averaged \$999 for widowed mothers and fathers and \$723 for children. Fewer than 50 mothers (fathers) and nearly 2,500 children received social security benefits averaging \$736 and \$475, respectively. Tier II amounts paid mothers (fathers) and children averaged, respectively, \$413 and \$90.

### **Lump-sum survivor benefits**

A lump-sum death benefit can be payable at the time of an employee's death only if there are no survivors immediately eligible for monthly benefits. For survivors of employees who had at least 10 years of railroad service before 1975, the lump-sum death benefit is based on the employee's earnings through 1974, with a maximum amount of approximately \$1,200. If the employee completed the 10th year of service after 1974, the lump-sum death benefit is limited to \$255, the maximum benefit payable under social security law, and only the widow or widower living in the same household is eligible for the benefit. Approximately 4,700 lump-sum death benefits averaging \$904 were awarded during fiscal year 2005. About 600 benefits were to widow(er)s, while 4,100 were to other individuals who paid the funeral expenses. Lump-sum benefits may also be payable to survivors of employees with less than 10 years of service, but at least 5 years after 1995, if the employee met the social security insured status requirements.

Another lump-sum survivor benefit, the residual payment, can be made if no other benefits based at least in part on an employee's railroad service will be payable in the future, and the total of prior benefit payments is less than what the employee paid in pre-1975 railroad retirement taxes. The 40 residual payments awarded in the 2005 fiscal year averaged \$3,733. Nearly all of the awards were to widow(er)s of employees not insured for monthly benefits under the Railroad Retirement Act, other relatives, designated beneficiaries, or the employee's estate. However, one payment went to an individual who elected to waive future monthly benefits in order to receive a residual benefit.

## **Medicare Enrollments**

The Medicare program provides health insurance to persons ages 65 and older, as well as persons under age 65 who have been entitled to monthly benefits based on total disability for at least 24 months or who suffer from chronic kidney disease requiring hemodialysis or transplant. In addition to the basic hospital insurance, or Part A, plan, which is financed through payroll taxes, there is an elective supplementary medical insurance, or Part B, plan for which monthly premiums are charged.

Eligible railroad retirement annuitants and social security beneficiaries whose benefits are payable by the Railroad Retirement Board are automatically enrolled under both plans, but Part B may be declined. Eligible nonretired persons must apply in order to obtain Medicare coverage. The Board automatically enrolled nearly 21,400 beneficiaries for Medicare during fiscal year 2005. As of the end of the fiscal year, approximately 527,700 persons were enrolled in the Part A plan, and about 512,600 (97 percent) of them were also enrolled in Part B.

Except for benefits for services in Canada, which are paid from the Railroad Retirement Account, railroad enrollees are paid Part A benefits from the Federal Hospital Insurance Trust Fund, the same as persons covered under the social security system. Part B benefits are paid from the Federal Supplementary Medical Insurance (SMI) Trust Funds. The carrier for Part B claims of railroad Medicare enrollees made payments totaling \$870 million in the 2005 fiscal year.

The regular monthly premium for medical insurance during fiscal year 2005 was \$66.60 for coverage through December 2004 and \$78.20 thereafter. The Board generally withholds Medicare premiums for annuitants from their benefit payments, and at the end of the fiscal year some 481,100 annuitants were having their premiums withheld. Of the remaining Part B enrollees, almost 7,000 were paying premiums to the Board, either directly or through an intermediary, and 24,500 had their premiums paid by State agencies. The Board periodically transfers premiums to the SMI Trust Funds.

## RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

### FINANCIAL OPERATIONS

Financing sources for the railroad unemployment and sickness insurance program during fiscal year 2005 exceeded costs by \$14.2 million and the net position increased by \$14.2 million from \$87.5 million at the end of fiscal year 2004 to \$101.7 million at the end of fiscal year 2005. For fiscal year 2005 as compared to fiscal year 2004, total financing sources for the railroad unemployment and sickness insurance program decreased by \$32.5 million (27.4 percent) to \$86.1 million.

*(text continued on p. 29)*

#### Unemployment and Sickness Insurance Program

#### **Consolidated Financing Sources, Costs and Net Position (Millions)<sup>1</sup>**

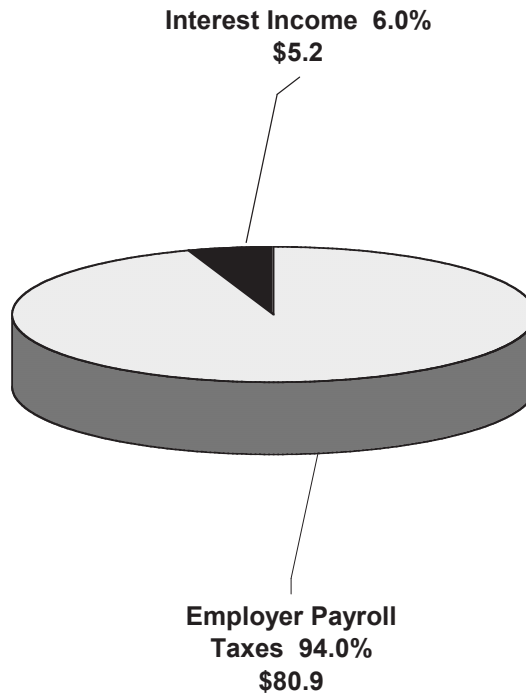
For the Fiscal Year Ended September 30	2005	2004
<b>Financing Sources:</b>		
Employer Payroll Taxes	\$80.9	\$114.1
Interest Income	5.2	4.7
Other	---	(0.2)
	<hr/>	<hr/>
Total Financing Sources	86.1	118.6
	<hr/>	<hr/>
<b>Costs:</b>		
Benefit Payments:		
Unemployment	29.1	37.8
Sickness	42.8	44.8
	<hr/>	<hr/>
Total Costs	71.9	82.6
	<hr/>	<hr/>
Financing Sources over Costs	14.2	36.0
Net Position - Beginning of Period	87.5	51.5
	<hr/>	<hr/>
Net Position - End of Period	\$101.7	\$87.5
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<sup>1</sup>Prepared on an accrual basis of accounting.

## UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM

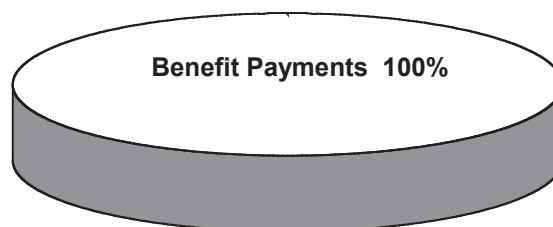
### Financing Sources - Fiscal Year 2005 (In Millions)

**GROSS TOTAL \$86.1**



### Costs - Fiscal Year 2005 (In Millions)

**TOTAL \$71.9**



## Financing Sources

The primary financing source of the railroad unemployment and sickness insurance program is a payroll tax on railroad employers, based on the taxable earnings of their employees. The employees themselves are not taxed.

Each employer pays taxes at a rate which takes into consideration its employees' actual incidence of benefit usage. Under experience rating, employers whose employees have low incidences of unemployment and sickness pay taxes at a lower rate than those with higher levels of benefit usage. Each employer's rate also has a component for administrative expenses and a component to cover costs shared by all employers. The rate applies to monthly earnings up to an indexed maximum. In calendar year 2005, the taxable earnings base was the first \$1,150 of each employee's monthly earnings. The earnings base is indexed each year by a rate which is equal to approximately two-thirds of the annual rate of increase in the maximum base for railroad retirement tier I taxes.

In 2005, the basic tax rates on railroad employers, including covered commuter railroads, ranged from a minimum of 2.15 percent (which includes a surcharge of 1.5 percent) to a maximum of 12 percent. Most employers were assessed the minimum rate in 2005. New employers in 2005 paid an initial rate of 3.43 percent.

### Employer Payroll Taxes

Payroll taxes by employers totaled \$80.9 million during fiscal year 2005. This was a decrease of 29.1 percent or \$33.2 million less than the previous year.

### Interest

Cash not needed immediately for unemployment and sickness insurance benefits or operating expenses is held in the Federal Unemployment Insurance Trust Fund and invested by the Secretary of the Treasury. The fund earned an average rate of return of 5.30 percent in fiscal year 2005, of which the Railroad Retirement Board earned \$5.2 million as its pro rata share.

## Costs

Total costs for the railroad unemployment and sickness insurance program decreased by \$10.7 million (13.0 percent) to \$71.9 million. These costs consisted solely of benefit payments.

### Benefit Payments

During fiscal year 2005, unemployment insurance benefit payments decreased by \$8.7 million (23.0 percent) to \$29.1 million. Sickness insurance benefit payments decreased \$2.0 million (4.5 percent) to \$42.8 million.

## BENEFIT OPERATIONS

**N**et unemployment and sickness benefits totaling \$73.6 million were paid in the 2004-2005 benefit year, \$11.1 million less than in the prior year. Beneficiaries numbered 28,700 in comparison to the previous year's total of some 32,100. Approximately 900 employees received both unemployment and sickness benefits during the 2004-2005 benefit year. The number of unemployment benefit claimants decreased by almost 20 percent, while sickness benefit claimants decreased by over 6 percent. Total unemployment benefit payments decreased by over 21 percent, while net sickness benefits decreased by more than 6 percent. The number of employees qualified for benefits under the Railroad Unemployment Insurance Act fell approximately 3 percent to 242,200.

Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year. During benefit year 2004-2005, there were 7,500 and 16,300 unemployment and sickness benefit waiting period claims, respectively.

### Unemployment

Some 9,300 railroad workers were paid \$30.2 million in unemployment benefits during the 2004-2005 benefit year. The number of benefit claimants decreased by 2,300 from the prior year total of 11,700, while the benefit amount fell \$8.1 million from the year-earlier total of \$38.3 million. The claimant count was the lowest since benefit year 1944-1945. The average number of compensable days per unemployment benefit claimant was 66 in benefit year 2004-2005 as compared to 64 in the previous benefit year. This was the highest number of compensable days since benefit year 1995-1996.

The mid-month unemployment count in the 2004-2005 benefit year began with a July count of 2,100 claimants. The count peaked at 3,900 in January, then dropped down to 1,500 in May 2005. For the 2004-2005 benefit year as a whole, the weekly number of claimants averaged 2,600 in comparison to an average of 3,300 in the previous benefit year. The overall unemployment benefit claimant rate, measured in relation to numbers of employees qualified to receive benefits under the Railroad Unemployment Insurance Act during a particular time period, decreased to 4 per 100 qualified from the previous year's level of 5 per 100 qualified. The median age of all unemployment benefit claimants was 46 years; it was 45 in the previous benefit year.

### Sickness

The number of sickness benefit claimants during the 2004-2005 benefit year was 20,200, about 1,400 lower than in the previous year. The claimant count was the

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**NOTE.**—Railroad unemployment and sickness benefits are paid on the basis of benefit years beginning July 1 and ending June 30 of the following year. Consequently, operational data in this "Benefit Operations" section are generally presented for this time span, rather than fiscal years beginning October 1 and ending September 30.



### Major unemployment and sickness benefit operations, benefit years 2004-2005 and 2003-2004

Item	Benefit year 2004-2005			Benefit year 2003-2004		
	Total	Unemployment	Sickness	Total	Unemployment	Sickness
Applications	36,700	11,700	25,100	41,000	14,400	26,600
Claims	236,400	73,700	162,700	268,600	91,700	176,800
Claimants	<sup>1</sup> 28,700	9,300	20,200	<sup>1</sup> 32,100	11,700	21,600
Net amount of benefits	\$73,583,600	\$30,179,000	\$43,404,600	\$84,676,600	\$38,263,900	\$40,412,800
Number of payments						
Normal	181,500	55,800	125,800	206,800	70,300	136,500
Extended	20,700	6,200	14,500	22,300	6,100	16,300
Total	202,200	62,000	140,200	229,100	76,400	152,700
Average amount per 2-week registration period						
Normal	\$497	\$492	\$499	\$486	\$478	\$489
Extended	459	458	459	451	454	450
Total	494	489	496	483	477	486

<sup>1</sup> Benefits for both unemployment and sickness were paid to approximately 1,200 employees in benefit year 2003-2004 and 900 employees in benefit year 2004-2005. Those claimants who had only a non-compensable waiting period are not included in the beneficiary counts since no benefits were paid.

lowest since sickness benefits began in benefit year 1947-1948. Gross sickness benefits of \$78.5 million were paid, \$5.2 million less than in the prior benefit year. Net sickness benefits totaled \$43.4 million, reflecting repayment of a large amount of benefits following settlements of suits for injuries. Benefits payable for an injury are recoverable if the claimant is awarded damages or receives a settlement for the injury. Net benefits decreased by \$3.0 million in comparison with the previous year.

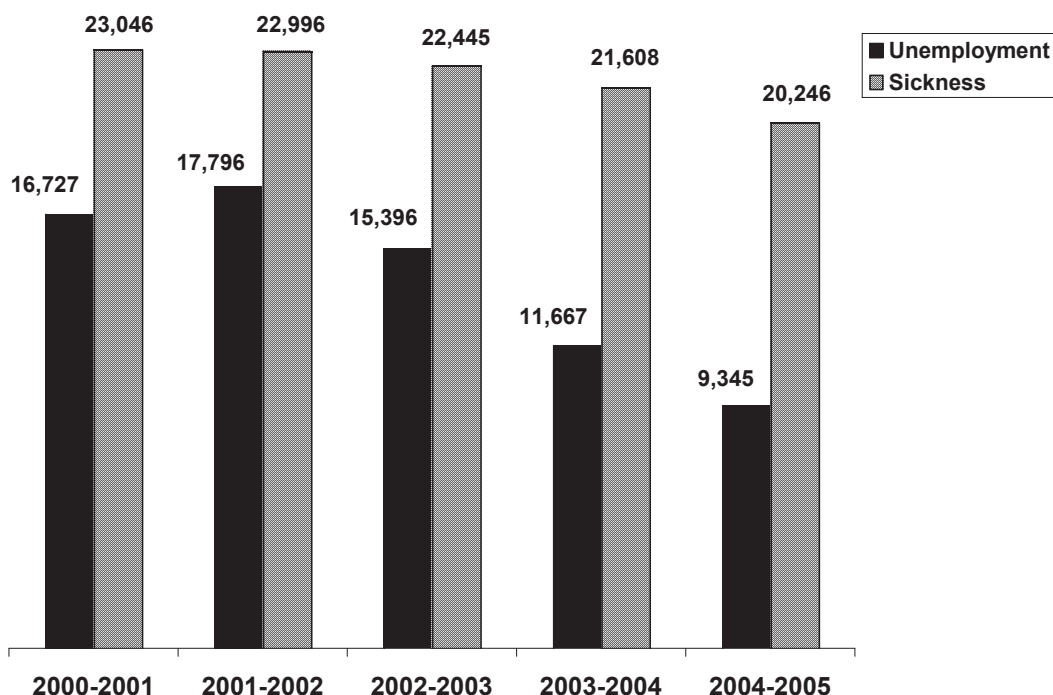
After continual increases since benefit year 1995-1996, the utilization rate for sickness benefits remained the same during the previous two years, then declined in the 2004-2005 benefit year. The average duration of sickness decreased slightly to the lowest duration in the last 5 years.

Among the most common causes of sickness were injuries that included fractures or wounds (affecting 25 percent of beneficiaries), arthritis and disk disorders (22 percent), circulatory and heart disease

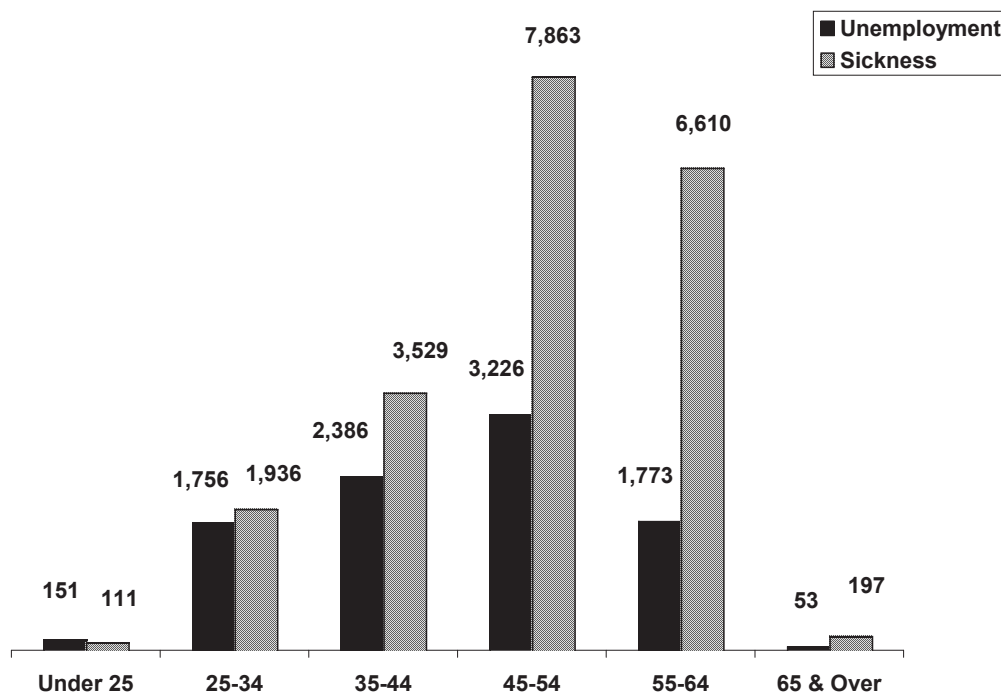
Benefit Year	Utilization Per 100 Qualified Employees	Average Compensable Days
<b>2001-2002</b>	<b>8.5</b>	<b>73</b>
<b>2002-2003</b>	<b>8.7</b>	<b>71</b>
<b>2003-2004</b>	<b>8.7</b>	<b>70</b>
<b>2004-2005</b>	<b>8.4</b>	<b>69</b>

(9 percent), and mental disorders, including drug and alcohol addictions (11 percent). The median age of all sickness benefit claimants was 51 years, the same as in the previous benefit year.

### Claimants under the Railroad Unemployment Insurance Act, Benefit Years 2000-2001 through 2004-2005



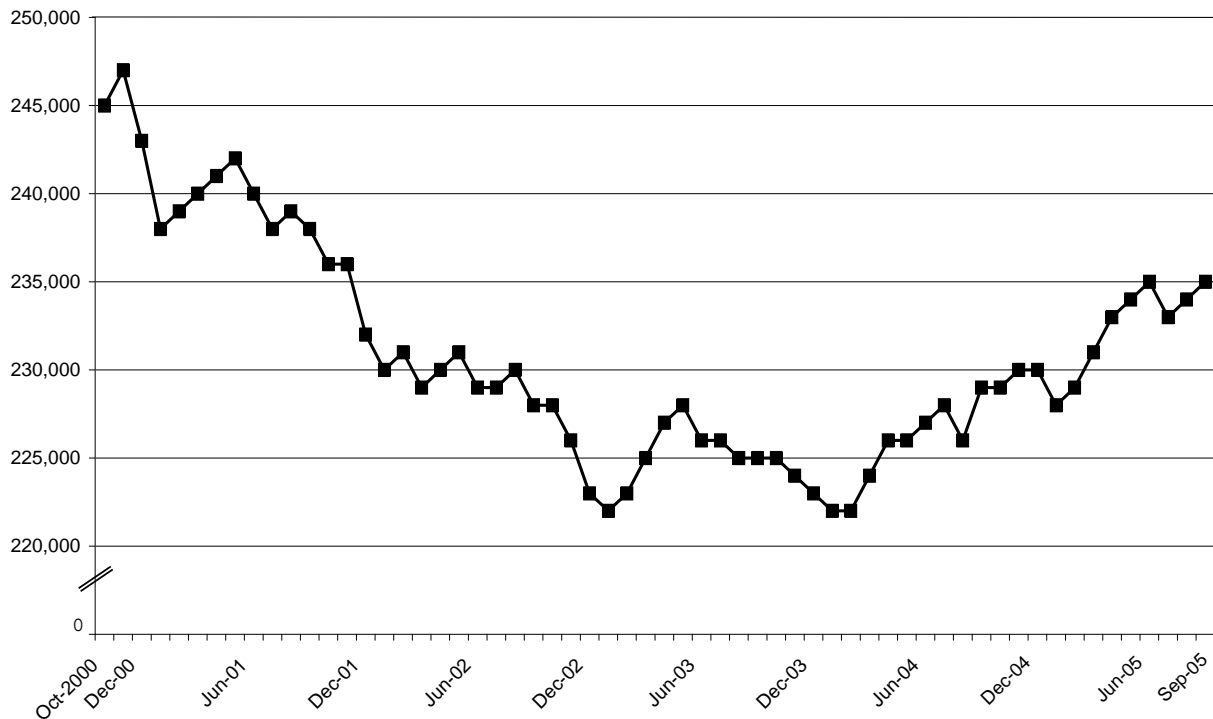
### Unemployment and Sickness Benefit Claimants By Age, Benefit Year 2004-2005



## RAILROAD EMPLOYMENT

Average monthly railroad employment in fiscal year 2005 rose by nearly 3 percent to 232,000 from the 225,000 average of the previous year. September 2005 had the highest level of employment in fiscal year 2005 with 235,000 and January 2005 had the low of 228,000. Average employment was the highest since fiscal year 2000-2001.

**Average Railroad Employment  
Fiscal Years 2001 through 2005**



**Note.**--Numbers for 2005 are preliminary.

# ADMINISTRATIVE DEVELOPMENTS

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*The following describes some major issues addressed in 2005 and 2006  
as the Railroad Retirement Board continued efforts  
to improve agency operations and better serve its customers.*

## Service

### Customer Satisfaction Survey

The Board earned a score of 90 in a 2005 American Customer Satisfaction Index (ACSI) survey, the highest score for any government agency surveyed during the year and 18 points higher than the overall Federal Government score.

The ACSI survey focused on the Board's survivor benefit process. The survey included initial widow(er)s and spouse-to-widow(er) conversions who received a payment between January 1, 2005, and May 31, 2005. Initial widow(er) cases are those where a widow(er) was not receiving a spouse benefit at the time she or he became eligible for a widow(er)'s benefit. Spouse-to-widow(er) conversion cases are those where a retired employee and his or her spouse were both receiving retirement benefits prior to the employee's death.

The survey found the RRB scoring highest (94) in the area of customer service, with respondents particularly praising the courtesy, professionalism, and responsiveness of agency employees, along with the accuracy of the information provided. The survivor benefit application process received a score of 88, with most respondents pleased with the ease of the process and with the amount of supporting documentation required.

The RRB also earned a confidence index score of 92, indicating that its customers are quite satisfied with the service provided by the agency and are very confident they will continue to be well-served in the future. The survey did note that those in the initial widow(er) segment were less satisfied with the survivor benefit process than those in the spouse-to-widow(er) segment, and an opportunity for improvement lies with that segment of the survivor population.

Produced through a partnership of the University of Michigan Business School, the American Society for Quality and Claes Fornell International, the ACSI annually measures national customer satisfaction with corporate and government goods and services. Working with the Department of the Treasury's Federal Consulting Group, government agencies participating in the survey use the ACSI to gauge their level of service and benchmark their performance for comparison with similar organizations in the private

sector. The ACSI also helps agencies focus on those processes, based on customer feedback, that will have the biggest impact on an agency's ability to deliver the highest quality products and services.

This marks the third time that the Board has participated in the survey. The agency earned a score of 75 in a 2002 ACSI survey of railroad unemployment and sickness benefit claimants, and a score of 82 in a 2001 ACSI survey of recently retired railroad workers.

## **Customer Service Plan**

The Railroad Retirement Board's Customer Service Plan promotes the principles and objectives of customer-driven quality service agency-wide and is benchmarked to service levels in both government agencies and private industries performing similar functions. The Board's plan specifies the level of service customers can expect, measures performance, and obligates the Board to report annually on its performance. The plan is reviewed and updated periodically on the basis of the Board's experience, comparisons of the Board's service with the best in business, and feedback received from customers.

During fiscal year 2005, customers received benefit services within the timeframes promised in the Board's plan 98.7 percent of the time. This figure represents overall timeliness of customer service in four benefit areas: retirement applications; survivor applications; disability applications and payments; and railroad unemployment and sickness benefit applications and claims. The Board believes that using this composite indicator, based on a weighted average, allows for a more concise and meaningful presentation of its customer service efforts in these benefit areas. It should be noted that the RRB's Office of Inspector General has found some discrepancies in the performance measurement process which will be corrected in 2006.

The plan requires that persons who file in advance for a railroad retirement employee or spouse annuity will receive their first payment, or a decision, within 35 days of their annuity beginning date. Persons who do not file in advance will receive their first payment, or a decision, within 65 days of the date they filed their application. Of the cases processed during fiscal year 2005, 93.5 percent of employee and 92.7 percent of spouse applicants who filed in advance received a payment, or a decision, within 35 days of their annuity beginning date. Taking these employee and spouse cases together, 93.1 percent of this group met the agency's standard for fiscal year 2005. Also, 97.0 percent of employee and 97.4 percent of spouse applicants who had not filed in advance received a payment or a decision within 65 days of their filing date. Taken together, 97.3 percent of these cases met the agency's standard.

The Board's plan requires that those who file for a disability annuity receive a decision within 105 days of the date they filed their application. If entitled, the first payment will be within 25 days of the date of the Board's decision, or the earliest possible payment date, whichever is later. Of the cases processed during fiscal year 2005, 67.9 percent of those filing for a disability annuity received a decision within 105 days

of the date they filed an application. Average processing time was 90.6 days. Of those entitled to disability benefits, 94.4 percent received their first payment within the plan's time frame.

The plan requires that those filing for monthly survivor benefit payments, or a lump-sum benefit, will receive their first payment, or a decision, within 65 days of the date they filed their application, or became entitled to benefits, if later. Those already receiving a spouse annuity will receive their first payment, or a decision, within 35 days of the date the Board receives notice of the employee's death. Of the cases processed during fiscal year 2005, 92.8 percent of the applicants for an initial survivor annuity were issued a payment or a decision within 65 days. In addition, 96.9 percent of the applicants for a lump-sum benefit were issued a payment or a decision within 65 days. In cases where the survivor was already receiving a spouse annuity, 94.6 percent of the applicants were issued a payment or a decision within 35 days of the Board being notified of the employee's death.

Persons who file an application for unemployment or sickness insurance benefits will receive a claim form, or a decision, within 15 days of the date the application was filed, and persons filing claims for subsequent biweekly unemployment or sickness insurance benefits will receive a payment, or a decision, within 15 days of the date the Board receives their claim forms. During fiscal year 2005, 99.8 percent of unemployment benefit applications sampled for timeliness and 99.6 percent of sickness benefit applications processed met the Board's standard. In addition, 99.8 percent of subsequent claims processed for unemployment and sickness benefits met the Board's standard for fiscal year 2005.

In fiscal year 2005, 98.5 percent of all correspondence the Board received was responded to, either with an acknowledgement or with a final reply, within the agency's 15-day standard.

## **Hurricane Katrina**

In the wake of Hurricane Katrina, the Board's New Orleans district office was closed and its six employees relocated to other locations. Beneficiary claims processing, phone calls and mail delivery were forwarded to other Board offices as agency employees worked to maintain service to customers in the gulf coast region. The agency expedited the processing of all claims for non-receipt of benefit payments and new or temporary changes of address. The New Orleans district office reopened in December 2005.

## **Technology and Automation**

### **Database Conversion Project**

In 2005 the Board started work on a major information technology initiative to convert its existing non-relational IDMS database management system to a relational DB2 database system. The conversion will place the agency in a better position to provide service more efficiently in the coming years.

The decision to convert the existing database was several years in the making and one that required extensive research. IDMS was a dependable database and served the agency well for many years, but it was not designed to support Web-based application development. Conversion of the system will play a paramount role in reducing the agency's dependency on technologies with a limited, shrinking experience base. The project will also position the Board for the next generation of IT integrators/developers who have the experience and knowledge of newer technologies.

## **Internet Services**

***Employer Reporting System.***--The Employer Reporting System, available on the Board's Web site at [www.rrb.gov](http://www.rrb.gov), allows rail and labor employers to electronically file information related to the reporting of employee service and compensation data.

The Board is currently working to enhance the system to allow for filing of additional forms, including those for prepayment and postpayment verification for unemployment and sickness claims. When completed in fiscal year 2006, this measure will position the agency to replace about 180,000 paper documents sent to rail employers each year and will improve benefit accuracy and timeliness.

***RUIAnet.***--Railroad employees have the option of filing applications and biweekly claims for railroad unemployment benefits over the Internet through the Board's RUIAnet service. During fiscal year 2005, additional features were added to the service to provide automatic processing of certain unemployment claims without intervention by agency personnel, and to allow railroad employees to view the status of their unemployment and sickness applications and claims.

Although claimants cannot currently file applications or biweekly claims for railroad sickness benefits over the Internet, the Board is planning to add the online filing of sickness claims to RUIAnet in fiscal year 2007.

## **RRBVision**

Through a Windows-based communications system, Board employees are able to view video presentations with accompanying training materials, such as PowerPoint presentations or on-line screens. Presentations can be viewed in real-time or saved to a server for later viewing.

In 2005, 61 presentations (referred to as "RRBVision" programs) were developed and placed on the agency's Intranet for viewing by employees. Topics included technical training for claims examiners, presentations from the Board's National Managers Meeting, and various non-technical sessions.

The benefits of RRBVision include consistency in training, a greater number of training programs available to offsite staff, availability of training on-demand, and reduced travel costs when programs can be done via RRBVision instead of in person. The Board is pursuing efforts to make the system available on the agency Web site to provide training and instructions to rail employers, beneficiaries and claimants.

## **Health Insurance Portability and Accountability Act**

The October 2003 implementation of the Health Insurance Portability and Accountability Act requires that all claims for reimbursement (except for small providers) under the Medicare programs be submitted electronically. The percentage of claims submitted electronically to Palmetto GBA, the agency's Part B Medicare carrier, increased from 34.7 percent in October 2004 to 57 percent in December 2005.

## **System Processing Excess Earnings Data (SPEED)**

SPEED is an automated system that provides a single source for both retirement and survivor annuitant earnings information. Recent enhancements to the system provide the ability to mechanically reinstate survivor benefit payments previously suspended for excess earnings, and allow for an address verification process in cases where benefit payments have been suspended for 6 or more months.

## **The Medicare Prescription Drug, Improvement, and Modernization Act of 2003**

Railroad employees and railroad retirement beneficiaries who are eligible for Medicare are covered by provisions of this new law in the same manner as beneficiaries under the Social Security Act. Although the Centers for Medicare & Medicaid Services (CMS) and the Social Security Administration (SSA) have primary responsibilities for implementing and administering provisions of the Act, several of the major provisions require the Board to make changes to its procedures and automated systems. In addition, many railroad beneficiaries have sought assistance from the Board's field office claims representatives in answering questions about the new Medicare prescription drug benefits.

The Board implemented new programs to ensure that railroad retirement beneficiaries are considered for prescription drug subsidies. The agency was unable, however, to implement system changes by January 2006 needed to withhold monthly prescription drug premiums from the benefits of individuals who prefer this method of premium payment. In November 2005, letters were mailed to 530,000 railroad retirement beneficiaries with Medicare to assure them that they were eligible to enroll in prescription drug plans, and to explain the alternative options available for paying monthly premiums. The Board expects to complete work in 2007 on the system changes that will allow beneficiaries to have premiums deducted from their monthly benefits. As of February 2006, approximately 225,000 railroad retirement beneficiaries were enrolled in Medicare prescription drug plans.

The Board is also working with CMS and SSA to implement system changes necessitated by section 811 of the Medicare legislation, which increases Part B premiums effective January 2007 for higher income beneficiaries.

## **Intrusion Detection System (IDS)**

While the Board relies on a sophisticated hardware and software defense of its computer systems, even the best firewall technology, anti-virus software, and intrusion



detection systems require careful monitoring and maintenance. In the event of a successful malware attack, the agency has implemented an incident response capability. Also, a Forensic Analysis Workstation is now operational, providing the Board's Computer Emergency Response Team with the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today (USB drives, desktop, notebook and server hard drives, flash media cards, etc.).

## **Security Awareness and Training**

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices. The purpose of awareness presentations is simply to focus attention on security. The Board continues to develop new approaches for refreshing the awareness initiative by providing new and innovative presentations for its employees.

The agency's computer security training program strives to produce relevant and needed security skills and competencies. The Board utilizes the Office of Personnel Management-sponsored USALearning Center Web-based training. In 2005, all agency staff that had significant IT responsibilities for developing and maintaining agency systems were enrolled in this educational program. The agency will take further advantage of this cost-effective training source in 2006 by enrolling an additional number of business and technical analysts with specific responsibilities for the protection of automated information resources.

## **Officials**

Michael S. Schwartz continues to serve as Chairman of the Railroad Retirement Board. V. M. Speakman, Jr. continues to serve as Labor Member, and Jerome F. Kever continues to serve as Management Member.

## **Office of Equal Opportunity**

### **Diversity Program**

During 2005, the Office of Equal Opportunity's employee committees sponsored many events and activities at the Board to foster a diverse work environment and enhance the understanding of disability issues.

Throughout the year, the Workplace Diversity Committee held various activities including an International Food Festival and several programs to commemorate African American History Month, Asian Pacific American Heritage Month, Hispanic Heritage Month, Native American Heritage Month and Women's History Month. In addition, during Disability Awareness Month, members of the Employees with Disabilities Advisory Council served as mentors for several disabled high school students who visited the agency on National Disability Mentoring Day.

The Office of Equal Opportunity also distributed its employee publication, *Working Together*, which featured articles on diversity-related topics and the discrimination complaint process.

## **Equal Opportunity Policy and Procedure**

Equal employment opportunity (EEO) training was conducted for new supervisors, and an *OEO Letter to New Supervisors* was developed to ensure that new supervisors will be promptly informed of their EEO responsibilities. All Board employees were provided online training covering their rights and remedies under the No FEAR Act, and an *OEO Welcome Letter* for new employees was created to transmit the No FEAR notice and other anti-discrimination-related documents. Statistical data pertaining to discrimination complaints filed by agency employees and applicants for employment were posted on the Board's Web site, along with the agency's reasonable accommodation procedures.

## **Recruitment**

The Office of Equal Opportunity worked cooperatively with the Board's Bureau of Human Resources to create a diverse pool of qualified candidates for employment by identifying sources to recruit minorities, individuals with disabilities and disabled veterans.

## **Public Information Activities**

The Board maintains direct contact with railroad retirement beneficiaries through its field offices located across the country. Field personnel explain benefit rights and responsibilities on an individual basis, assist railroad employees in applying for benefits and answer any questions related to the benefit programs. The Board also relies on railroad labor groups and employers for assistance in keeping railroad personnel informed about its benefit programs.

At informational conferences sponsored by the Labor Member of the Board for railroad labor union officials, Board representatives describe and discuss the benefits available under the railroad retirement-survivor, unemployment-sickness and Medicare programs, and the attendees are provided with comprehensive informational materials. A total of 1,825 railroad labor union officials attended 30 informational conferences held in cities throughout the United States during 2005. In addition, railroad labor unions frequently request that Board representatives speak before their meetings, seminars and conventions. In 2005, the Labor Member's Office was represented at eight union gatherings attended by 1,391 railroad labor officials. Field personnel addressed 111 local union meetings with 4,648 members in attendance.

In May 2006, the Board's Management Member's Office welcomed over 130 reporting officials from across the nation to its sixth National Rail Employer Training Seminar in Chicago. The seminar offered a variety of instructional sessions providing information and guidance for those railroad officials responsible for preparing and filing reports of service, compensation, contributions and other business interactions with the Board.

## Office of Inspector General

During fiscal year 2005, the Office of Inspector General conducted eleven audits to identify operational weaknesses and provide recommendations for corrective action to agency management. The financial impact of audit findings exceeded \$5.4 million. Auditors continued to focus on financial management issues and information system security activities at the agency. In addition, a contractor retained by the Office of Inspector General conducted information systems security control tests and evaluations.

The agency realized additional monies in the annual financial interchange with the Social Security Administration as a result of an earlier audit that recommended unrecovered overpayments be included in the financial interchange calculation. To account for uncollectible benefit overpayments written off in calendar years 1997-2003, a total of \$8 million was added to the fiscal year 2004 transfer.

An audit of the Railroad Retirement Board's fiscal year 2004 financial statements, related internal controls and compliance with laws and regulations was completed, and a clean opinion on the financial statements was issued. A material weakness in the agency's information security program and a reportable condition in controls over implementation of changes to laws and regulations were cited. The audit also cited four serious management challenges facing the agency: control environment, asset stewardship, managing for change and information technology security.

In accordance with the provisions of the Federal Information Security Management Act (FISMA) of 2002, auditors conducted the annual evaluation of information security and assessed the effectiveness of the agency's information system security program and practices. They identified two new significant deficiencies in the agency's security program as a result of delays in meeting FISMA requirements. The agency has not implemented an effective risk assessment process, and efforts to implement a consistent, compliant testing and evaluation process have not been successful. Without completion of corrective actions, the Office of Inspector General warned that the agency will be unable to eliminate information security as a material weakness in agency operations.

Other issues examined during the year included the processing of disability earnings cases, retired employee work deductions, competitive sourcing compliance, internal controls in selected areas, annuity payment issues and compliance with the Prompt Payment Act.

Investigative activities resulted in 55 criminal convictions, 52 indictments and informations, 30 civil judgments and \$2.8 million in recoveries, restitutions, fines, civil damages, and penalties. Various schemes used by annuitants to conceal their earnings to avoid the earnings restrictions of the RRB disability program were identified. The Office of Inspector General continues to focus the majority of its efforts investigating fraud related to the RRB's disability program. These cases typically involve sophisticated fraud schemes disguised as legitimate business arrangements.

# LEGAL RULINGS

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*Four cases involving the Railroad Retirement Board were resolved by the courts during fiscal year 2005. Several significant legal opinions were issued.*

## Court Cases

**F**ive cases of various types involving petitions for review of decisions of the Railroad Retirement Board were pending in the courts at the beginning of fiscal year 2005, and three cases were opened during the fiscal year. Four cases were resolved during fiscal year 2005; each decided in the Board's favor. Four cases were pending at the end of the fiscal year.

## Legal Opinions

The following Legal Opinions are presented here because of their special significance or interest.

*Legal Opinion L-2005-4* concerned a proposed allocation as pay for time lost compensation of damages awarded by a jury verdict in a personal injury action. The General Counsel ruled that the entire amount of damages for past lost compensation should be allocated equally among months following the date of injury and through the date of entry of judgment, and that compensation may not be allocated to months after entry of judgment.

The railroad employee was injured September 12, 2001, and brought a suit for damages against his railroad employer. After trial the State court on October 28, 2004, entered a judgment on the jury's verdict in the amount of \$130,835 for "past loss, including lost earnings" and \$760,872 for "future loss, including lost earnings, medical expenses, pension loss, ability to provide household services." The jury found 20 percent of the above damages to result from the plaintiff railroad employee's own negligence, which reduced the total damages recoverable by the plaintiff employee to 80 percent of the total, or \$104,668 for "past loss" and \$608,697 for "future loss."

The regulations of the Board allow parties to agree that the employer file a return of compensation allocating pay to the months in which the time was actually lost. A reasonable relationship to the employee's normal monthly pay is ordinarily no less than 10 times the employee's daily pay rate.

The evidence in the case is that although a total judgment of \$713,365 is payable to the employee in October 2004 based on factors including pay for time lost, no compensa-

tion was allocated to specific months. The Board's compensation records for the employee show a total of 34 months for which no compensation had been reported during the period following the September 2001 date of injury and through the date of entry of judgment in October 2004. The General Counsel advised that, in the absence of allocation to other factors, the Railroad Retirement Act requires that the entire \$104,668 of damages, including past lost compensation, must be allocated equally among the 34 months following the date of injury and through the date of entry of judgment.

Additional service months may be credited after entry of judgment or conclusion of a settlement agreement to the extent that the employee retains an employment relation with the railroad employer and that the judgment or settlement agreement clearly intends that the employment relation is to continue into the future. Though future earnings were explicitly included in the verdict in the subject case, the General Counsel pointed out that it cannot be shown that the parties intended to credit compensation to an identifiable period beyond the date of judgment. Accordingly, in the case, none of the \$608,697 in damages awarded for factors including loss of future earnings may be credited as compensation to months beyond the date of the October 2004 judgment and verdict.

*Legal Opinion L-2005-5* concerned the effect under the Railroad Retirement and Railroad Unemployment Insurance Acts of payments under the provisions of the Burlington Northern and Santa Fe (BNSF) Voluntary Reserve Board Program of March 2005. The General Counsel advised that payments made under that program are creditable as railroad compensation for benefit entitlement purposes under the Acts for months through the month in which the employee's resignation takes effect.

Under the program, an eligible employee may file an election to be placed on a "Voluntary Reserve Board." The employee will be paid \$2,500 per month for a period of 3 years, except that payments end before expiration of 3 years if the employee becomes eligible for a full annuity under the Railroad Retirement Act, or if the employee dies. During the period of payment, the employee retains health insurance coverage and the right to participate in the BNSF 401(k) plan, and the employee remains subject to recall. BNSF will withhold health insurance premiums, union dues, and employment taxes under the Railroad Retirement Tax Act. The employee agrees to not reapply for any position at BNSF while on the reserve board, nor to perform service for BNSF in any capacity other than recall to service. The employee's resignation becomes effective at the conclusion of the payments.

An alternative offers employees eligible for the reserve board to elect immediate resignation and payment of a lump sum equal to \$2,500 per month multiplied by the number of months in what would otherwise be the employee's maximum period of reserve board eligibility (*i.e.*, the lesser of 36 months or the number of months through eligibility for full retirement) for a gross lump sum not to exceed \$90,000. The employer will deduct "federal, state and railroad retirement taxes, and union dues, etc." but employees electing the lump sum are not subject to recall, and are not eligible for continuing health and welfare benefits or for 401(k) contributions.

The General Counsel advised that payments made to employees electing placement on the voluntary reserve board under the BNSF Voluntary Reserve Board Program of March 2005 are creditable as compensation for benefit entitlement purposes under the Railroad Retirement Act and Railroad Unemployment Insurance Act, including calculation of the tier II annuity component, during the period the employee remains on the reserve board. The lump-sum payment made under the program to those who elect immediate resignation is creditable only through the date of resignation, except with respect to the tier I annuity calculation.

*Legal Opinion L-2005-14* concerned whether an individual retained a current connection with the railroad industry following transfer from the Transportation Security Administration (TSA) to the Department of Homeland Security.

The employee, who was born in February 1947, has been credited with a total of 366 months of service in the railroad industry through April 2001, when he left railroad service. In April 2002, he was hired by the TSA. The employee indicated that he intends to retire at age 60 in 2007, and requested advice as to whether his continued employment for TSA will break his current connection with the railroad industry.

Assuming the employee's continued employment for the TSA after November 2002 to be regular and substantial, it would break his current connection unless that employment falls within a specified exception.

Congress on November 19, 2001, created the TSA as an agency within the Department of Transportation. Service with the Department of Transportation is excluded from that which will break a current connection.

The Homeland Security Act established a new Department of Homeland Security as an executive department of the United States government. That Act also established the post of Under Secretary for Border and Transportation Security, and transferred to that official "the functions, personnel, assets and liabilities of \*\*\* the Transportation Security Administration of the Department of Transportation \*\*\*." The Act required that the TSA continue to be maintained as a distinct entity within the Department of Homeland Security for at least 2 years after the date of enactment, and also provided that with respect to any function transferred under the Act, reference in any other Federal law to any department the functions of which are transferred shall be deemed to refer to the Secretary.

The General Counsel advised that the Homeland Security Act quoted above requires that the reference to the Department of Transportation in the Railroad Retirement Act must be deemed to refer by name to any former component of the Department of Transportation, such as the TSA, which the Homeland Security Act transferred to the Department of Homeland Security. This means that section 1(o) of the Railroad Retirement Act must be read as if it explicitly lists the Transportation Security Administration among those Federal entities for which employment is disregarded when determining the existence of a current connection.

Accordingly, the General Counsel ruled that the employee has not lost his regular current connection by reason of his continued employment for the Transportation Security Administration. A final determination as to whether he retains a current connection at the time his annuity begins to accrue must be made after he files his annuity application, and must consider any other employment he might have performed.

*Legal Opinion L-2005-20* concerned whether work classified as “seasonal” employment by a Federal agency is exempt from the last pre-retirement non-railroad employment (LPE) provisions of the Railroad Retirement Act. The question arose when an employee annuitant worked as a seasonal employee for the Internal Revenue Service (IRS) for a period of a little more than 4 years.

Prior to 1988, the Railroad Retirement Act provided that an employee must terminate all employment, railroad and nonrailroad, in order to be entitled to an annuity and no annuity was payable for any month an individual worked for such employers after his annuity began. In 1988 the restrictions related to nonrailroad employment were revised such that an individual was no longer required to terminate nonrailroad employment, but was subject to work deductions for such work after the annuity began.

Employment of a seasonal nature falls outside the scope of the LPE restrictions. However, application of the “seasonal employment” exception requires the satisfaction of the following three factors: 1) the employee possesses no reemployment rights and must reapply each year for the position, 2) the employment relationship is terminated at the end of each period of employment, and 3) such employment has terminated prior to the annuity beginning date for a reason not related to the application for an annuity under the Railroad Retirement Act.

In the case at issue, the employee’s annuity beginning date was August 1, 2000. His seasonal employment for the IRS ran from January 31, 2000, through March 17, 2004, and included several furloughs during that period. The employee did not possess reemployment rights and did not reapply each year. His employment relationship did not terminate at the end of each period of employment. The employee started with the IRS on January 31, 2000, as a seasonal employee and resigned March 17, 2004. A table provided by the IRS indicates that the employee worked 8 months in 2000, 9 months in 2001, essentially all of 2002, 5 months in 2003 and one month in 2004.

That an employer categorizes certain types of employment as seasonal is not sufficient to warrant application of the seasonal employment exception for LPE work restrictions. The General Counsel ruled that, based on the available information, it did not appear that any of the three conditions enumerated above were satisfied. Although the IRS indicates that the employee does not possess any reemployment rights, the IRS also advises that the employee did not have to reapply each year. Furthermore, the IRS indicated that the employee was in furlough status when he was not working and that his employment relationship with the IRS did not terminate until he resigned in March of 2004. Finally, the employment did not terminate before the employee’s annu-

ity beginning date as the IRS indicated that the employee was first placed on furlough on August 26, 2000, which is *after* his annuity beginning date of August 1, 2000. Accordingly, the General Counsel found that the employee's employment with the IRS was subject to the LPE work restrictions.

## Appeals

Any claimant for benefits under the Railroad Retirement or Railroad Unemployment Insurance Acts may appeal a determination he or she feels is not justified. This appeal must be filed within certain time frames. Appeals are heard and decided by the Bureau of Hearings and Appeals. An appellant who is dissatisfied with the decision on his or her appeal may further appeal the case to the three-member Board within a prescribed period of time.

### Railroad Retirement Act

During fiscal year 2005, 626 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Retirement Act, and the Bureau rendered decisions in 631 appeals, including some carried over from the previous year. The initial or reconsideration decision was sustained in 224 cases. In 407 appeals the decision was favorable to the claimant in whole or in part.

Seventy-seven appeals were filed with the Board in fiscal year 2005, which, added to the 22 appeals carried over from the previous year, brought the total to be considered to 99. Of 70 decisions, 59 sustained previous rulings of the hearings officer, three were reversed, one was remanded to the Office of Programs, two were remanded to the Bureau of Hearings and Appeals, and five were dismissed. At the end of the year, 29 appeals were pending before the Board.

### Railroad Unemployment Insurance Act

During fiscal year 2005, 51 appeals were filed with the Bureau of Hearings and Appeals under the Railroad Unemployment Insurance Act, and the Bureau rendered decisions in 61 appeals, including some carried over from the previous year. The initial or reconsideration decision was sustained in 44 cases. In 17 appeals the decision was favorable to the claimant in whole or in part.

Twelve appeals were filed with the Board in fiscal year 2005, which, added to the two carried over from the previous year, brought the total to be considered to 14. The Board rendered decisions in eight cases of appeals from the decision of the referee, affirming the decision in seven cases, and remanding one to the Bureau of Hearings and Appeals. At the end of the year, six appeals were pending before the Board.



# STATISTICAL TABLES

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**Table 1.--Beneficiaries and benefits paid under the Railroad Retirement Act and the Railroad Unemployment Insurance Act, by fiscal year, 1996-2005**

Fiscal year	Total <sup>1</sup>	Retirement <sup>2</sup>	Survivor <sup>2</sup>	Unemployment	Sickness
<b>BENEFICIARIES (in thousands)</b>					
1996.....	849	565	272	17	20
1997.....	830	549	263	15	21
1998.....	800	530	254	11	21
1999.....	777	514	246	13	22
2000.....	755	499	237	14	23
2001.....	737	483	228	18	24
2002.....	719	475	219	17	24
2003.....	699	465	211	15	23
2004.....	677	456	203	12	22
2005.....	659	448	194	10	21
<b>BENEFIT PAYMENTS (in millions)</b>					
1996.....	\$8,179.1	\$6,089.1	\$2,024.4	\$40.7	\$24.9
1997.....	8,278.6	6,166.3	2,039.4	37.5	35.4
1998.....	8,305.9	6,199.0	2,047.5	25.9	33.4
1999.....	8,317.7	6,207.2	2,041.3	33.0	36.2
2000.....	8,373.3	6,254.1	2,040.3	36.4	42.4
2001.....	8,506.2	6,352.6	2,058.8	43.2	51.6
2002.....	8,742.1	6,535.9	2,107.5	49.2	49.4
2003.....	8,957.3	6,726.0	2,136.9	44.3	50.1
2004.....	9,091.3	6,876.9	2,131.3	37.7	45.3
2005.....	9,254.0	7,051.6	2,129.5	29.2	43.7

<sup>1</sup> Benefit payments include a small amount of payments for hospital insurance benefits for services in Canada.

<sup>2</sup> Retirement benefits include vested dual benefit and supplemental annuity payments. Survivor benefits include vested dual benefit payments.

NOTE.-- Number of beneficiaries represents all individuals paid benefits in year. In total number for each year, beneficiaries are counted only once, even though they may have received more than one type of benefit. In fiscal year 2005, 9,100 individuals received both retirement and survivor benefits, 1,000 employees received both unemployment and sickness benefits, and 3,800 employees received benefits under both the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These figures are partly estimated, and totals for earlier years are similarly adjusted.

**Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1996-2005 (In millions)**

Item	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>RAILROAD RETIREMENT ACCOUNT</b>										
<b>Receipts</b>										
Tax transfers <sup>1</sup> .....	<sup>2</sup> \$2,474.7	\$2,518.7	\$2,660.8	<sup>3</sup> \$2,932.4	\$2,928.6	\$2,819.2	\$2,743.1	\$2,651.4	\$2,611.0	\$2,606.6
Interest and profit on investments <sup>4</sup> .....	<sup>5</sup> 913.0	<sup>6</sup> 1,348.9	1,730.2	316.0	1,316.0	2,038.9	1,832.0	283.2	12.6	41.3
Transfers from the National RR Investment Trust <sup>7</sup> .....	.....	.....	.....	.....	.....	.....	.....	300.0	1,564.0	809.0
Transfers from the SSEB Account <sup>7</sup> .....	.....	.....	.....	.....	.....	.....	.....	.....	223.0	149.0
<b>Expenditures</b>										
Benefit payments <sup>8</sup> .....	\$2,854.5	<sup>6</sup> \$2,225.5	\$2,888.3	\$2,880.6	\$2,925.3	\$2,930.2	\$3,337.8	\$3,567.5	\$3,636.4	\$3,567.1
Net transfers to administration.....	50.8	47.1	49.5	51.2	55.9	54.7	64.9	64.0	65.3	73.7
Transfers to the National RR Investment Trust <sup>7</sup> .....	.....	.....	.....	.....	.....	.....	1,431.6	17,750.0	586.0	.....
Balance at end of period <sup>9</sup> .....	\$12,352.5	\$13,972.3	\$15,451.2	\$15,768.9	\$17,032.9	\$18,907.2	<sup>10</sup> \$18,640.4	<sup>11</sup> \$502.2	\$625.6	\$591.1
<b>SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNT<sup>12</sup></b>										
<b>Receipts</b>										
Tax transfers <sup>1</sup> .....	<sup>2</sup> \$1,918.3	\$2,046.5	\$2,208.7	<sup>3</sup> \$2,000.1	\$2,208.5	\$2,134.0	\$2,134.7	\$2,128.0	\$2,240.8	\$2,370.8
Interest and profit on investments <sup>4</sup> .....	<sup>5</sup> 123.3	<sup>6</sup> (116.2)	90.7	91.5	101.7	93.8	115.4	67.8	22.5	(2.2)
Transfers under financial interchange <sup>13</sup> .....	3,556.3	3,747.2	3,819.1	3,816.0	3,697.6	3,282.8	3,646.8	3,747.3	3,843.5	3,917.3
Advances against financial interchange <sup>14</sup> .....	3,150.1	3,183.9	3,145.1	2,992.3	3,005.1	3,145.2	3,153.9	3,236.1	3,245.7	3,256.0
<b>Expenditures</b>										
Benefit payments <sup>8</sup> .....	\$4,939.4	<sup>6</sup> \$5,681.4	\$5,078.8	\$5,104.5	\$5,124.8	\$5,256.5	\$5,146.7	\$5,166.0	\$5,254.6	\$5,507.7
Net transfers to administration.....	23.3	25.3	26.2	25.2	27.1	25.0	26.1	22.8	22.9	24.1
Transfers under financial interchange <sup>13</sup> .....	401.3	419.1	419.4	429.9	465.3	469.7	424.7	426.3	418.6	444.9
Repayment of advances against financial interchange <sup>15</sup> .....	3,329.5	3,399.0	3,430.0	3,370.8	3,190.1	3,222.2	3,385.3	3,342.4	3,409.9	3,399.6
Transfers to the National RR Investment Trust/RR Account <sup>7</sup> .....	.....	.....	.....	.....	.....	.....	.....	1,438.0	223.0	149.0
Balance at end of period.....	\$2,319.4	\$1,656.1	\$1,965.2	\$1,934.7	\$2,140.3	\$1,822.7	\$1,890.9	\$674.6	\$698.2	\$714.8

See footnotes at end of table.

**Table 2.--Status of the Railroad Retirement Act accounts and trust funds, by fiscal year, 1996-2005 (In millions) - Continued**

Item	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST<sup>16</sup></b>										
Cash and investment balance at end of period <sup>17</sup> .....	.....	.....	.....	.....	.....	.....	\$1,420.7	\$23,016.5	\$25,019.7	\$27,636.6
<b>RAILROAD RETIREMENT SUPPLEMENTAL ACCOUNT<sup>18</sup></b>										
<b>Receipts</b>										
Tax transfers <sup>1</sup> .....	<sup>2</sup> \$68.3	\$103.6	\$118.1	\$90.4	\$76.7	\$67.8	\$23.5	.....	.....	.....
Interest and profit on investments <sup>4</sup> .....	<sup>5</sup> (20.5)	(0.9)	0.7	2.5	3.5	3.1	2.9	.....	.....	.....
<b>Expenditures</b>										
Benefit payments <sup>8</sup> .....	\$86.2	\$82.4	\$78.6	\$75.1	\$72.9	\$68.8	\$16.8	.....	.....	.....
Net transfers to administration.....	2.2	2.2	2.0	2.1	2.3	2.0	0.7	.....	.....	.....
Transfers to the National RR Investment Trust <sup>7</sup> .....	.....	.....	.....	.....	.....	.....	70.4	.....	.....	.....
Balance at end of period <sup>9</sup> .....	\$41.2	\$35.3	\$41.0	\$56.8	\$61.7	\$61.7	<sup>10</sup> .....	.....	.....	.....
<b>DUAL BENEFITS PAYMENTS ACCOUNT<sup>19</sup></b>										
Dual benefit transfers <sup>20</sup> .....	\$239.0	\$223.0	\$205.5	\$189.0	\$173.3	\$160.0	\$146.0	\$131.1	\$118.3	\$107.1
Benefit payments.....	233.4	216.4	200.9	188.4	171.4	156.0	142.2	129.4	117.3	106.3
Balance at end of period <sup>9</sup> .....	\$5.3	\$6.6	\$4.6	\$0.6	\$1.9	\$4.0	\$3.9	\$1.8	\$1.0	\$0.8

See footnotes at end of table.

## Footnotes - Table 2

<sup>1</sup> Net of U.S. Treasury adjustments for payroll tax refunds to certain carriers and their employees for prior periods. Includes Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.

<sup>2</sup> Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -\$13.4 million, Social Security Equivalent Benefit Account -\$14.5 million, and Railroad Retirement Supplemental Account +\$27.9 million.

<sup>3</sup> Reflects transfer of \$83.1 million from the Social Security Equivalent Benefit Account to the Railroad Retirement Account for reallocation of fiscal year 1998 payroll taxes. Railroad Retirement Account also reflects special Treasury income tax adjustment of \$146 million for calendar years 1988-1994.

<sup>4</sup> Net of interest on U.S. Treasury adjustments for payroll tax refunds (see note 1). Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in interest for benefit payment adjustments related to the financial interchange (see note 8).

<sup>5</sup> Reflects adjustment for misclassified supplemental annuity tax refunds for fiscal year 1996 and prior fiscal years: Railroad Retirement Account -\$11.0 million, Social Security Equivalent Benefit Account -\$10.8 million, and Railroad Retirement Supplemental Account +\$21.8 million.

<sup>6</sup> Reflects adjustment in benefit payments (Railroad Retirement Account -\$676.8 million, Social Security Equivalent Benefit Account +\$676.8 million) charged to the Social Security Equivalent Benefit Account for October 1984 - December 1995, as compared to actual financial interchange benefits, with interest (Railroad Retirement Account +\$241.6 million, Social Security Equivalent Benefit Account -\$241.6 million) through August 1, 1997.

<sup>7</sup> Under the Railroad Retirement and Survivors' Improvement Act of 2001, as amended, the portion of the Railroad Retirement Account not needed to pay current administrative expenses is to be transferred to the National Railroad Retirement Investment Trust (Trust). The Trust may transfer funds back to the Railroad Retirement Account for payment of benefits. The balance of the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses is to be transferred to the Trust or to the Railroad Retirement Account. The SSEB Account transferred funds to the Trust in fiscal year 2003 and to the Railroad Retirement Account thereafter.

<sup>8</sup> Railroad Retirement and Social Security Equivalent Benefit Accounts reflect adjustments in benefit payments charged to the Social Security Equivalent Benefit Account as compared to actual financial interchange benefits. Effective January 1, 2002, supplemental benefits are paid from the Railroad Retirement Account.

<sup>9</sup> The Railroad Retirement Account balance reflects (a) the current net difference between Board payments of social security benefits and the receipt of reimbursements for such payments, (b) liabilities for uncashed check credits received from U.S. Treasury, (c) credits for undistributed payment returns and recoveries, and (d) loans to and repayments from the Railroad Unemployment Insurance or the Railroad Retirement Supplemental Accounts. The Railroad Retirement Supplemental Account balance reflects loans from and repayments (including interest) to the Railroad Retirement Account. The Dual Benefits Payments Account balance does not carry over to the following year.

<sup>10</sup> Reflects transfer of \$124,000 from the Railroad Retirement Supplemental Account to the Railroad Retirement Account. The Railroad Retirement Account balance also reflects a loan of \$7.8 million to the Railroad Unemployment Insurance Account.

<sup>11</sup> Reflects payment during the year of the entire debt balance from the Railroad Unemployment Insurance Account, \$7.8 million in principal and \$0.4 million in interest.

<sup>12</sup> Established October 1, 1984, to keep track of the financing and payment of social security level portions of railroad retirement benefits.

<sup>13</sup> Transfers to or from OASDHI Trust Funds under section 7(c)(2) of the 1974 Railroad Retirement Act.

<sup>14</sup> Advances, including interest, from U.S. Treasury to offset lag in receipt of financial interchange funds under section 7(c)(4) of the 1974 Railroad Retirement Act as amended.

<sup>15</sup> Includes interest.

<sup>16</sup> Established February 1, 2002, for investment of railroad retirement assets.

<sup>17</sup> Source: National Railroad Retirement Investment Trust.

<sup>18</sup> Under the Railroad Retirement and Survivors' Improvement Act of 2001, the supplemental work-hour tax was repealed for years after 2001, and the separate Railroad Retirement Supplemental Account was eliminated.

<sup>19</sup> Established October 1, 1981, to keep track of the financing and payment of vested dual benefits.

<sup>20</sup> Transfers from U.S. Treasury under section 15(d) of the Railroad Retirement Act of 1974 and Federal income tax transfers under section 72(r) of the Internal Revenue Code as amended.

Table 3.--Status of the Railroad Unemployment Insurance Account, by fiscal year, 2001-2005 (In thousands)

Item	Fiscal year				
	2001	2002	2003	2004	2005
<b>RECEIPTS</b>					
Taxes.....	\$30,575	\$75,696	\$122,638	\$109,191	\$76,179
Interest.....	4,204	1,582	3,444	5,148	5,796
Transfer from Administration fund under sec. 11(d) of the RUI Act.....	6,048	6,734	5,645	6,608	6,544
Undistributed recoveries of benefit payments <sup>1</sup> .....	865	(900)	788	(1,037)	(327)
Loan from the RR Account.....	....	7,800	....	....	....
<b>Total.....</b>	<b>\$41,692</b>	<b>\$90,912</b>	<b>\$132,515</b>	<b>\$119,910</b>	<b>\$88,192</b>
<b>EXPENDITURES</b>					
Benefit payments.....	\$94,823	\$98,580	\$94,389	\$82,975	\$72,861
Repayment of RRA Loan.....	....	....	8,181	....	....
Funding for Office of Inspector General.....	1,233	1,372	1,392	1,318	1,686
<b>Total.....</b>	<b>\$96,057</b>	<b>\$99,953</b>	<b>\$103,962</b>	<b>\$84,293</b>	<b>\$74,547</b>
Cash balance end of period.....	\$28,409	\$19,368	\$47,921	\$83,537	\$97,183
<b>LOANS DUE RAILROAD RETIREMENT ACCOUNT</b>					
Loans.....	....	\$7,800	....	....	....
Interest accrued.....	....	208	\$173	....	....
Repayment from RUI Account.....	....	....	8,181	....	....
<b>Due RR Account end of period.....</b>	<b>....</b>	<b>\$8,008</b>	<b>....</b>	<b>....</b>	<b>....</b>

<sup>1</sup> Net of distributed payments.

**Table 4.--Status of the RUIA Administration Fund, by fiscal year, 1996-2005 (In thousands)**

Fiscal year	Taxes and interest	Administrative expenditures <sup>1</sup>	Transfer to Railroad Unemployment Insurance Account under Sec. 11d <sup>2</sup>	Balance at end of period
<b>1996</b> .....	\$17,373	\$16,497	\$689	\$4,821
<b>1997</b> .....	16,891	16,136	694	4,883
<b>1998</b> .....	19,081	13,123	2,993	7,849
<b>1999</b> .....	20,235	13,188	5,814	9,081
<b>2000</b> .....	19,941	14,847	6,546	7,629
<b>2001</b> .....	20,434	14,004	6,048	8,011
<b>2002</b> .....	20,032	13,266	6,734	8,043
<b>2003</b> .....	21,313	15,407	5,645	8,304
<b>2004</b> .....	20,787	15,846	6,608	6,637
<b>2005</b> .....	21,126	15,761	6,544	5,457

<sup>1</sup> Expenditures for each year included encumbrances as of end of year.

<sup>2</sup> Transfers to the Railroad Unemployment Insurance Account are based on the amount the accrual balance on the prior September 30 exceeded \$6,000,000.

**Table 5.--Number and average amount of retirement and survivor annuities in current-payment status at end of year, by type of annuitant and fiscal year, 1996-2005**

Fiscal year	Total <sup>1</sup>	Retired employees			Spouses and divorced spouses	Aged widow(er)s <sup>2</sup>	Disabled widow(er)s	Widowed mothers (fathers) <sup>2</sup>	Children	Remarried widow(er)s	Divorced widow(er)s <sup>2</sup>
		Age	Disability	Supple- mental							
NUMBER AT END OF YEAR											
1996 .....	936,428	265,030	78,647	161,806	188,281	204,969	6,371	1,525	14,960	6,066	8,690
1997 .....	906,741	255,664	79,063	155,721	181,399	197,447	6,202	1,462	14,665	6,064	8,976
1998 .....	875,905	245,900	79,017	149,260	174,467	190,222	6,031	1,427	14,347	6,045	9,116
1999 .....	846,687	236,741	79,617	143,515	167,478	182,839	5,893	1,327	13,964	5,967	9,280
2000 .....	819,327	228,439	80,158	138,158	161,283	175,464	5,679	1,245	13,561	5,886	9,392
2001 .....	790,711	219,646	80,574	132,799	154,710	167,840	5,460	1,165	13,233	5,733	9,490
2002 .....	775,638	216,044	81,653	132,066	151,006	160,490	5,236	1,114	12,804	5,619	9,545
2003 .....	756,176	210,363	82,572	129,201	146,740	153,673	5,105	1,035	12,472	5,421	9,541
2004 .....	736,787	204,650	83,302	125,992	142,881	146,943	4,936	1,050	12,176	5,256	9,550
2005 .....	721,659	199,767	84,000	123,550	141,330	140,595	4,835	999	11,795	5,078	9,657
AVERAGE AMOUNT											
1996 .....	.....	\$1,175	\$1,228	\$43	\$471	\$708	\$628	\$882	\$608	\$484	\$505
1997 .....	.....	1,223	1,291	43	487	740	650	916	627	507	526
1998 .....	.....	1,264	1,346	43	502	768	672	957	646	531	546
1999 .....	.....	1,300	1,398	43	514	792	687	991	659	548	559
2000 .....	.....	1,351	1,465	42	530	826	711	1,029	678	571	579
2001 .....	.....	1,414	1,548	42	550	870	746	1,076	706	603	606
2002 .....	.....	1,496	1,624	42	579	948	799	1,228	728	627	633
2003 .....	.....	1,554	1,683	42	598	985	831	1,279	744	647	649
2004 .....	.....	1,619	1,751	42	620	1,026	865	1,337	766	673	674
2005 .....	.....	1,693	1,825	42	638	1,069	902	1,388	789	704	703

<sup>1</sup> Includes annuities to parents. On September 30, 2005, there were 53 parents' annuities in current-payment status averaging \$775.

<sup>2</sup> Numbers include annuities temporarily being paid at spouse annuity rates, pending final adjudication of survivor annuities.

NOTE.--Data exclude survivor (option) annuities. On September 30, 2005, there was one survivor (option) annuity of \$76 in current-payment status.



**Table 6.--Number and average amount of retirement and survivor annuities awarded during year, by type of annuitant and fiscal year, 1996-2005**

Fiscal year	Total <sup>1</sup>	Retired employees			Spouses and divorced spouses	Aged widow(er)s	Disabled widow(er)s	Widowed mothers (fathers)	Children	Remarried widow(er)s	Divorced widow(er)s
		Age	Disability	Supple- mental							
NUMBER AWARDED											
1996.....	38,635	7,415	4,878	4,414	9,576	9,979	233	204	825	365	737
1997.....	38,293	7,422	4,872	4,494	9,175	9,868	240	222	855	381	757
1998.....	36,508	6,756	4,620	4,399	8,739	9,566	248	236	851	360	727
1999.....	36,205	6,846	5,140	4,496	8,157	9,317	246	199	719	324	759
2000.....	35,818	7,186	4,709	4,749	8,316	8,699	204	159	714	336	744
2001.....	33,289	6,285	4,630	4,339	7,648	8,372	217	157	611	307	719
2002.....	44,485	11,127	5,206	8,337	9,764	8,104	199	161	590	273	716
2003.....	37,841	8,261	4,955	6,124	8,749	7,800	244	162	645	216	684
2004.....	36,083	7,801	4,764	5,590	8,579	7,320	218	186	660	258	702
2005 <sup>2</sup> .....	37,405	7,958	4,399	5,671	10,380	7,020	239	176	581	221	751
Cumulative 1937-2005	4,839,987	1,414,548	496,439	448,501	1,104,584	1,002,040	17,209	84,275	234,200	14,285	20,384
AVERAGE AMOUNT											
1996.....	.....	\$1,435	\$1,527	\$41	\$505	\$858	\$770	\$955	\$741	\$594	\$564
1997.....	.....	1,506	1,593	41	521	888	782	868	760	607	564
1998.....	.....	1,579	1,649	41	545	920	810	908	805	642	599
1999.....	.....	1,654	1,751	41	567	945	825	993	831	658	615
2000.....	.....	1,745	1,871	41	584	998	901	1,049	858	670	613
2001.....	.....	1,842	1,971	41	613	1,044	927	996	932	701	654
2002.....	.....	2,243	2,051	42	697	1,286	1,148	1,319	961	697	705
2003.....	.....	2,201	2,092	41	733	1,346	1,262	1,384	953	775	743
2004.....	.....	2,247	2,168	41	744	1,378	1,257	1,550	998	816	777
2005 <sup>2</sup> .....	.....	2,285	2,210	41	655	1,416	1,288	1,397	1,023	821	796

<sup>1</sup> Includes annuities to parents. Fiscal year 2005 total includes 9 annuities to parents averaging \$1,032. Cumulative total includes 3,522 annuities to parents.

<sup>2</sup> An unusually large number of spouse awards were made with small or no tier 1 amounts, resulting in larger than normal numbers of spouse awards and smaller than normal award amounts.

NOTE.--Cumulative figures reflect adjustments not made in yearly data, but average amounts for each year include effects of changes in rates made by the end of the year.

**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2005, by class and state (Amounts in thousands)**

State <sup>1</sup>	Total		Retirement benefits <sup>2</sup>		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
Alabama.....	11,900	\$13,079	8,900	\$10,104	3,000	\$2,974
Alaska.....	200	223	200	169	100	54
Arizona.....	13,000	13,407	10,100	10,443	2,900	2,964
Arkansas.....	11,700	13,299	9,200	10,802	2,400	2,497
California.....	40,000	40,432	30,400	31,067	9,600	9,365
Colorado.....	9,700	10,512	7,400	8,169	2,300	2,343
Connecticut.....	3,600	3,879	2,600	2,898	1,000	981
Delaware.....	2,200	2,457	1,600	1,838	600	619
Washington DC.....	700	565	500	401	200	164
Florida.....	39,300	41,115	30,900	32,898	8,400	8,216
Georgia.....	19,300	21,275	14,800	16,779	4,400	4,496
Hawaii.....	300	215	200	164	100	51
Idaho.....	5,900	6,454	4,600	5,111	1,300	1,344
Illinois.....	46,200	47,420	35,700	36,867	10,400	10,553
Indiana.....	20,900	22,365	16,000	17,300	4,900	5,065
Iowa.....	11,800	12,121	9,000	9,243	2,800	2,878
Kansas.....	17,900	19,477	14,100	15,480	3,800	3,997
Kentucky.....	18,800	20,530	14,600	16,149	4,200	4,381
Louisiana.....	9,800	10,675	7,400	8,109	2,500	2,567
Maine.....	3,900	4,036	2,900	3,012	1,000	1,024
Maryland.....	12,200	12,848	9,000	9,582	3,200	3,265
Massachusetts.....	5,800	5,660	4,200	4,133	1,600	1,527
Michigan.....	18,900	19,777	14,700	15,496	4,100	4,281
Minnesota.....	20,700	21,198	15,900	16,334	4,800	4,864
Mississippi.....	8,000	8,501	6,200	6,712	1,800	1,790
Missouri.....	24,700	25,764	19,000	20,098	5,700	5,665
Montana.....	7,600	8,356	6,000	6,586	1,600	1,770
Nebraska.....	13,900	15,525	11,000	12,419	2,900	3,106
Nevada.....	4,400	4,668	3,500	3,742	900	926
New Hampshire.....	1,200	1,116	900	805	300	311
New Jersey.....	12,000	12,575	8,700	9,259	3,300	3,315
New Mexico.....	6,000	6,228	4,600	4,796	1,400	1,433
New York.....	29,300	31,338	21,500	23,965	7,700	7,374
North Carolina.....	13,100	13,891	9,900	10,759	3,200	3,132
North Dakota.....	4,200	4,570	3,200	3,525	1,000	1,045

See footnotes at end of table.

**Table 7.--Retirement and survivor benefits in current-payment status on September 30, 2005, by class and state (Amounts in thousands) - Continued**

State <sup>1</sup>	Total		Retirement benefits <sup>2</sup>		Survivor benefits	
	Number	Monthly amount	Number	Monthly amount	Number	Monthly amount
<b>Ohio</b> .....	37,800	\$39,408	28,300	\$29,486	9,500	\$9,922
<b>Oklahoma</b> .....	6,500	6,990	5,000	5,420	1,600	1,570
<b>Oregon</b> .....	11,000	11,696	8,500	9,142	2,500	2,554
<b>Pennsylvania</b> .....	49,600	52,452	35,500	37,831	14,100	14,622
<b>Rhode Island</b> .....	700	726	500	516	200	210
<b>South Carolina</b> .....	8,100	8,926	6,100	6,967	2,000	1,959
<b>South Dakota</b> .....	1,700	1,665	1,300	1,291	400	374
<b>Tennessee</b> .....	15,200	16,342	11,400	12,532	3,800	3,811
<b>Texas</b> .....	41,800	45,304	31,900	35,076	9,900	10,228
<b>Utah</b> .....	7,100	7,681	5,400	5,832	1,700	1,849
<b>Vermont</b> .....	1,200	1,084	800	761	300	323
<b>Virginia</b> .....	22,500	24,507	16,900	18,869	5,600	5,638
<b>Washington</b> .....	14,900	15,788	11,600	12,379	3,300	3,409
<b>West Virginia</b> .....	12,400	13,268	9,200	9,873	3,200	3,395
<b>Wisconsin</b> .....	13,700	13,784	10,600	10,575	3,100	3,210
<b>Wyoming</b> .....	3,800	4,362	3,000	3,500	800	863
<b>Outside United States:</b>						
<b>Canada</b> .....	3,400	2,096	2,200	1,150	1,200	946
<b>Mexico</b> .....	400	293	200	139	200	153
<b>Other</b> .....	800	701	500	405	400	297
<b>Total</b> <sup>3</sup> .....	721,700	\$762,647	548,600	\$586,955	173,000	\$175,691

<sup>1</sup> State of residence of beneficiary on September 30, 2005.

<sup>2</sup> Includes 123,600 supplemental annuities to employees receiving regular annuities. In a relatively small number of cases, employees were also receiving spouse or widow(er)'s benefits.

<sup>3</sup> Includes beneficiaries whose state of residence was unknown.

NOTE.--Retirement benefits include regular and supplemental employee annuities, spouse annuities and divorced spouse annuities. Survivor benefits include annuities to aged and disabled widow(er)s, widowed mothers and fathers, remarried and divorced widow(er)s, children, parents, survivor (option) annuities, and widow(er)s annuities temporarily being paid at spousal annuity rates pending final adjudication of survivor annuities. Benefit amounts exclude social security payments to dual beneficiaries.

**Table 8.--Principal administrative data for the unemployment and sickness benefit programs, benefit years 2000-2001 through 2004-2005**

Item	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
<b>Qualified employees.....</b>	277,400	269,900	259,100	248,800	242,200
<b>Maximum daily benefit rate.....</b>	\$48	\$50	\$52	\$55	\$56
<b>UNEMPLOYMENT BENEFITS</b>					
<b>Net amount of benefits paid (thousands)</b>	\$43,008	\$47,383	\$45,614	\$38,264	\$30,179
<b>Payments:<sup>1</sup></b>					
<b>Number.....</b>	96,100	103,600	96,700	76,400	62,000
<b>Average amount per two week</b>					
<b>claim period.....</b>	\$415	\$429	\$449	\$477	\$489
<b>Beneficiaries.....</b>	16,700	17,800	15,400	11,700	9,300
<b>Applications received.....</b>	20,100	22,000	18,300	14,400	11,700
<b>Claims received.....</b>	118,800	128,500	116,400	91,700	73,700
<b>Normal benefit accounts exhausted.....</b>	2,200	2,700	2,900	2,400	2,200
<b>Non-compensable waiting period only<sup>2</sup>..</b>	(3)	(3)	(3)	(3)	(3)
<b>SICKNESS BENEFITS</b>					
<b>Net amount of benefits paid (thousands)</b>	\$49,512	\$50,904	\$49,891	\$46,413	\$43,405
<b>Payments:<sup>1</sup></b>					
<b>Number.....</b>	163,200	168,400	160,700	152,700	140,200
<b>Average amount per two week</b>					
<b>claim period.....</b>	\$426	\$445	\$461	\$486	\$496
<b>Beneficiaries.....</b>	23,000	23,000	22,400	21,600	20,200
<b>Applications received.....</b>	28,700	28,100	27,900	26,600	25,100
<b>Claims received.....</b>	189,000	194,000	185,700	176,800	162,700
<b>Normal benefit accounts exhausted.....</b>	4,500	5,100	4,700	4,500	3,900
<b>Non-compensable waiting period only<sup>2</sup>..</b>	100	100	100	200	100

<sup>1</sup> Not adjusted for recoveries or settlements of underpayments.

<sup>2</sup> Benefits are payable for each day of unemployment or sickness in excess of 7 during the first 14-day registration period in a benefit year.

<sup>3</sup> Less than 50.

NOTE.--Data covered program activities during the year, regardless of when unemployment or sickness occurred.

**Table 9.--All employees, new entrants, employees qualified for RUIA benefits, and related data, by employer, 2004**

Class or name of employer	All employees				New entrants		Creditable Compensation (thousands)		
	Total	With 12 months of service in 2004	With sufficient service for RRA annuity	Qualified for RUIA benefits	Total	Qualified for RUIA benefits	Tier I	Tier II	RUIA
<b>CLASS OF EMPLOYER</b>									
<b>Class I railroads.....</b>	202,273	160,294	159,866	192,280	17,290	10,793	\$10,833,529	\$9,985,953	\$2,475,326
<b>Class II railroads.....</b>	8,388	6,266	6,299	7,688	763	440	384,154	365,745	97,375
<b>Class III railroads.....</b>	36,016	28,686	25,579	33,644	2,607	1,492	1,876,526	1,720,739	432,891
<b>Switching and terminal companies.....</b>	5,276	3,921	3,782	4,743	537	266	247,069	231,782	60,647
<b>Car-loan companies.....</b>	2,117	1,653	1,579	1,971	283	168	97,484	92,842	25,484
<b>Miscellaneous employers<sup>1</sup>.....</b>	4,859	3,621	3,306	4,282	454	224	260,281	224,042	54,011
<b>Total.....</b>	258,929	204,441	200,411	244,608	21,934	13,383	\$13,699,043	\$12,621,104	\$3,145,733
<b>SELECTED EMPLOYERS</b>									
<b>BNSF Railway Company.....</b>	43,035	35,067	35,546	41,266	3,455	2,351	\$2,464,632	\$2,232,626	\$535,222
<b>Canadian National, U.S. Operations</b>									
Chicago Central and Pacific Railroad Co.....	274	222	230	270	5	5	15,248	13,443	3,435
Duluth, Winnipeg and Pacific Railway Co.....	177	153	157	174	.....	.....	11,346	9,917	2,277
Grand Trunk Western Railroad Incorporated.....	1,625	1,277	1,470	1,590	17	9	98,418	86,543	20,296
Illinois Central Railroad Company.....	3,372	2,816	2,460	3,269	123	63	209,634	182,047	42,497
Sault Ste. Marie Bridge Company.....	57	53	57	56	.....	.....	3,166	2,926	738
Wisconsin Central LTD.....	1,536	1,288	1,447	1,510	3	.....	91,231	81,832	19,420
<b>CSX Transportation Incorporated.....</b>	35,778	28,367	27,678	34,396	2,186	1,504	1,891,338	1,777,119	438,424
<b>Kansas City Southern Railway Company.....</b>	2,937	2,232	2,016	2,692	376	214	144,539	136,829	34,647
IC & E - Kansas City Southern Joint Agency.....	132	112	108	125	8	4	6,481	6,271	1,648
<b>National Railroad Passenger Corp. (Amtrak).....</b>	22,190	17,155	18,200	21,285	1,181	717	1,038,198	993,297	272,031
<b>Norfolk Southern Corporation.....</b>	31,185	25,108	24,906	29,097	2,642	1,087	1,597,192	1,499,492	380,391
<b>Soo Line Railroad Company.....</b>	3,156	2,394	2,488	2,970	279	150	156,142	146,393	38,063
<b>Union Pacific Railroad Company.....</b>	56,819	44,050	43,103	53,580	7,015	4,689	3,105,963	2,817,220	686,237

<sup>1</sup> Includes labor organizations, lessor companies, employer associations and miscellaneous carrier affiliates.

NOTE.--Tier I compensation excludes miscellaneous compensation taxable at the tier I tax rate.

**United States  
Railroad Retirement Board**

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